(44)

No. 05-130

Supreme Court, U.S.
FILED
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IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

JOINT APPENDIX: VOL. I OF III

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JAN 31 2006
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SUPREME COURT, U.S.

January 26, 2006

PETITION FOR CERTIORARI FILED JULY 25, 2005
CERTIORARI GRANTED NOVEMBER 28, 2005

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U.S. DISTRICT COURT
Eastern District of Virginia (Norfolk)

Civil Docket No. 01-CV-736

MERCEXCHANGE, L.L.C.,
Appellant,

v.

EBAY, INC., *et al.*,
Defendant-Appellee.

RELEVANT DOCKET ENTRIES

DATE	NO.	PROCEEDINGS
9/26/01	1	COMPLAINT, Filing Fee $ 150.00; jury demand (filed in Alexandria Division 9/26/01) (jcow) [Entry date 09/27/01]
9/28/01	—	Receipt #149093 (from Alexandria Division) for filing fee paid on 9/27/01 (jcow)
9/28/01	—	Jury Trial Flag (jcow)
9/28/01	—	SUMMONSES with one certified copy issued for eBay, Inc., Half.com, Inc., Returnbuy, Inc., and provided to counsel (jcow)
9/28/01	—	Magistrate's consent form mailed to plaintiff's counsel, financial disclosure forms and foreign counsel applications provided (jcow)
9/28/01	2	NOTICE of Attorney Appearance for Mercexchange, L.L.C. by Gregory N. Stillman, Kenneth Reed Mayo (jcow) [Entry date 10/01/01]

DATE	NO.	PROCEEDINGS
10/1/01	—	CASE assigned to Judge Jerome B. Friedman (jcow)
10/5/01	3	SUMMONS Returned Executed as to eBay, Inc., Half.com, Inc., Returnbuy, Inc. 9/27/01 Answer due on 10/17/01 for Returnbuy, Inc., for Half.com, Inc., for eBay, Inc. (jcow)
10/11/01	4	MOTION by Mercexchange, L.L.C. as to Emerson Vincent Briggs, III for admission pro hac vice, Filing Fee Paid $ 25.00 (jcow)
10/11/01	5	MOTION by Mercexchange, L.L.C. as to Scott Lynn Robertson for admission pro hac vice, Filing Fee Paid $ 25.00 (jcow)
10/11/01	6	MOTION by Mercexchange, L.L.C. as to Jennifer Ann Albert for admission pro hac vice, Filing Fee Paid $ 25.00 (jcow)
10/11/01	—	So Ordered: granting [4-1] motion by Mercexchange, L.L.C. as to Emerson Vincent Briggs, III for admission pro hac vice, Filing Fee Paid $ 25.00, entered and filed 10/11/01 signed by Judge Jerome B. Friedman) Copies Mailed: 10/11/01 (jcow) [Entry date 10/12/01]
10/11/01	—	So Ordered: granting [5-1] motion by Mercexchange, L.L.C. as to Scott Lynn Robertson for admission pro hac vice, Filing Fee Paid $ 25.00, entered and filed 10/11/01 signed by Judge Jerome B. Friedman) Copies Mailed: 10/11/01 (jcow) [Entry date 10/12/01]

DATE	NO.	PROCEEDINGS
10/11/01	—	So Ordered: granting [6-1] motion by Mercexchange, L.L.C. as to Jennifer Ann Albert for admission pro hac vice, Filing Fee Paid $ 25.00, entered and filed 10/11/01 signed by Judge Jerome B. Friedman) Copies Mailed: 10/11/01 (jcow) [Entry date 10/12/01]
10/12/01	—	Receipt # 31697 for pro hac vice fee paid on 10/11/01 (jcow)
		* * * *
12/7/01	29	AMENDED COMPLAINT by Mercexchange, L.L.C. ; (Answer due 12/18/01 for Returnbuy, Inc., for Half.com, Inc., for eBay, Inc.) amending [1-1] complaint; jury demand (vwar) [Entry date 12/10/01]
12/18/01	30	ANSWER by eBay, Inc. to amended complaint; jury demand (vwar) [Entry date 12/19/01]
12/18/01	31	ANSWER by Half.com, Inc. to amended complaint; jury demand (vwar) [Entry date 12/19/01]
12/18/01	32	ANSWER by Returnbuy, Inc. to amended complaint; jury demand (vwar) [Entry date 12/19/01]
12/19/01	—	Referred for 16(b) Conference (vwar)
1/11/02	33	ORDER: 26(f) attorneys' conference set 1/22/02 at 2:30 p.m.; 16(b) scheduling conference set 2:30 1/28/02; initial disclosure 2/11/02; no party required to respond to discovery sooner than 2/22/02; entered 1/11/02; and filed 1/11/02; (signed by Magistrate Judge Tommy E. Miller)

DATE	NO.	PROCEEDINGS
		Copies Nailed: 1/11/02 (afor) [Entry date 01/12/02]
1/28/02	—	16(b) Conference held (vwar) [Entry date 01/31/02]
1/30/02	34	Rule 16(b) Scheduling Order: Jury trial set 10:00 a.m. on 7/29/02 at Norfolk. Expert *witnesses* to be identified by 3/29/02; disclosure outlined in Rule 26 (a) (2)(B) by 4/29/02; response to such disclosure by 5/29/02; rebuttal by 6/13/02; discovery by plaintiff(s) on or before 5/20/02; and defendant(s) on or before 6/17/02; discovery/ deposition in lieu of witness at trial concluded by 6/24/02; pretrial disclosures to be delivered to all counsel and unrepresented parties on or before 7/12/02; objections delivered by 7/17/02; an attorney's conference is set for 7/12/02 at 2:00 p.m.; a final pretrial conference shall be conducted on 7/19/02 at 11:00 a.m. entered 1/28/02 filed 1/30/02 (signed by Magistrate Judge Tommy E. Miller) Copies Mailed: 1/30/02 (vwar) [Entry date 01/31/02]
2/14/02	35	MOTION by eBay, Inc. for Charles Patrick Ebertin to appear pro hac vice, Filing Fee Paid $ 25.00; Receipt # 33232 (vwar)
2/15/02	—	So Ordered: granting [35-1] motion by eBay, Inc. for Charles Patrick Ebertin to appear pro hac vice, Filing Fee Paid $ 25.00; Receipt # 33232 (signed by Judge Jerome B. Friedman) Copies Mailed: 2/15/02 (vwar)

DATE	NO.	PROCEEDINGS
3/8/02	36	Protective Order setting forth terms and procedures for maintenance of confidential documents and information (see order for specifics), agreed, entered and filed 3/8/02 (signed by Judge Jerome B. Friedman) Copies Mailed 3/8/02 (vwar)
3/8/02	—	**Set Protective Order Flag. (vwar)
3/8/02	37	MOTION by eBay, Inc. for Protective Order pursuant to Federal Rule of Civil Procedure 26(c) (vwar) [Entry date 03/11/02]
3/8/02	38	MEMORANDUM in support of [37-1] motion for Protective Order by eBay, Inc., received (vwar) [Entry date 03/11/02]
3/8/02	38	Declaration of Steven R. Zahn Re: [37-1] motion for Protective. Order by eBay, Inc. (vwar) [Entry date 03/11/02]
3/19/02	39	MEMORANDUM by Mercexchange, L.L.C. in opposition to [37-1] motion for Protective Order by eBay, Inc., received. (vwar) [Entry date 03/20/02]
3/22/02	40	REPLY BRIEF by eBay, Inc. to response to [37-1] motion by eBay, Inc. for Protective Order by eBay, Inc., received (vwar)
3/27/02	41	MOTION by Mercexchange, L.L.C. to Compel Discovery (vwar) [Entry date 03/29/02]
3/27/02	42	MEMORANDUM in support of [41-1] motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 03/29/02]

DATE	NO.	PROCEEDINGS
3/27/02	—	Deadline updated; (vwar) [Entry date 03/29/02]
3/27/02	—	Deadline updated; to reset to 4/10/02 for [41-1] motion by Mercexchange, L.L.C. to Compel Discovery (vwar) [Entry date 03/29/02]
3/29/02	—	Motion hearing [37-1] motion by eBay, Inc. for Protective Order set at 11:30 4/3/02 (vwar)
4/1/02	43	EXPEDITED SECOND MOTION by Mercexchange, L.L.C. to Compel Discovery (vwar) [Entry date 04/02/02]
4/1/02	44	MEMORANDUM in support of [43-1] expedited second motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 04/02/02]
4/1/02	45	MOTION by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description (vwar) [Entry date 04/02/02]
4/1/02	46	MEMORANDUM by eBay, Inc. in support of [45-1] motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc., received (vwar) [Entry date 04/02/02]
4/1/02	46	Declaration by eBay, Inc. [45-1] motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc. (vwar) [Entry date 04/02/02]

DATE	NO.	PROCEEDINGS
4/1/02	46	Declaration of Chuck P. Ebertin by eBay, Inc. [45-1] motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc. (vwar) [Entry date 04/02/02]
4/1/02	47	MOTION by Half.com, Inc. for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid (vwar) [Entry date 04/02/02]
4/1/02	48	MEMORANDUM in support of [47-1] motion for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid by Half.com, Inc., received (vwar) [Entry date 04/02/02]
4/1/02	48	Declaration of Chuck P. Ebertin by Half.com, Inc. [47-1] motion for Summary Judgment that Claims 1-9 and 29-41 of *U.S.* Patent No. 6,085,176 are Invalid by Half.com, Inc. (vwar) [Entry date 04/02/02]
4/1/02	48	Declaration of Keith M. Basil in support of [47-1] motion for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid by Half.com, Inc. (vwar) [Entry date 04/02/02]
4/1/02	49	JOINT MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty (vwar) [Entry date 04/02/02]

DATE	NO.	PROCEEDINGS
4/1/02	50	MEMORANDUM in support of [49-1] motion for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received (Statement of Undisputed Facts attached separately) (vwar) [Entry date 04/02/02]
4/1/02	50	Declaration of Nicholas J. Magliato, Sr. Regarding the AMC System by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [49-1] joint motion for Summary Judgment that Claims 1,4,5,8,10,13,15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/02/02] [Edit date 04/02/02]
4/1/02	50	Declaration of Mark DiMaggio Regarding the AMC System by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [49-1] joint motion for Summary judgment that Claims 1,4,5,8, 10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/02/02] [Edit date 04/02/02]
4/1/02	50	Declaration of Allan M. Soobert by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [49-1] joint motion for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty *by* Returnbuy, Inc., Half.

DATE	NO.	PROCEEDINGS
		com, Inc., eBay, Inc. (vwar) [Entry date 04/02/02] [Edit date 04/02/02]
4/1/02	51	MOTION by eBay, Inc. for Summary Judgment that Claims 12, 14,15,17,18,19, 20,22,24,25,26,27,30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness (vwar) [Entry date 04/02/02]
4/1/02	52	MEMORANDUM in support of [51-1] motion for Summary Judgment that Claims 12,4,15,17,18,19,20,22,24,25,26,27,30,31,32, 34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness by eBay, Inc., received (UNDER SEAL) (Listing Of Undisputed Facts attached UNDER SEAL with Memorandum) (vwar) [Entry date 04/02/02]
4/1/02	52	Declaration of Choy Heng-Wah Regarding BidBroker Software-an Electronic Auction System by eBay, Inc. [51-1] motion for Summary Judgment that Claims 12, 14,15, 17,18,19,20,22,24,25,26,27,30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness by eBay, Inc. (vwar) [Entry date 04/02/02]
4/1/02	52	Declaration of Chuck P. Ebertin by eBay, Inc. in support of [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12, 14,15,17,18,19,20,22,24,25,26,27,30,31,32, 34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness by eBay, Inc. (Exhibits B and Q are

DATE	NO.	PROCEEDINGS
		filed UNDER SEAL) (vwar) [Entry date 04/02/02]
4/3/02	53	Minute entry: COURT PROCEEDINGS: TEM, USMJ; Sue Ash, OCR; Plaintiff appeared through Brian M. Buroker; Scott L. Robertson and Gregory N. Stillman; Defendant appeared through Steven R. Zahn and Allan Madis Soobert; came on for motion of defendant for protective order; argument; court directed defendant to answer by 4/12/02; court to prepare an order; court adjourned (vwar)
4/3/02	54	MOTION to defer ruling on motions for summary judgment until discovery is completed, to Strike defendants' summary judgment brief for exceeding page limits and violating Rule 37(c)(1), to amend schedule with respect to defendants' motions for summary judgment (vwar) (Entry date 04/04/02]
4/3/02	55	MEMORANDUM by Mercexchange, L.L.C. in support of [54-1] motion to defer ruling on motions for summary judgment until discovery is completed, [54-2] motion to Strike defendants' summary judgment brief for exceeding page limits and violating Rule 37(c)(1), (54-3] motion to amend schedule with respect to defendants' motions for summary judgment by Mercexchange, L.L.C., received (vwar) [Entry date 04/04/02]

DATE	NO.	PROCEEDINGS
4/3/02	55	Declaration of K. Reed Mayo, Esq., (54-1] motion to defer ruling on motions for summary judgment until discovery is completed, [54-2] motion to Strike defendants' summary judgment brief for exceeding page limits and violating Rule 37(c)(1) by Mercexchange, L.L.C., (54-3] motion to amend schedule with respect to defendants' for summary judgment by Mercexchange, L.L.C. (vwar) [Entry date 04/04/02]
4/4/02	56	ORDER denying [37-1] motion by eBay, Inc. for Protective Order and directing defendant to respond to plaintiff's second and third requests for admissions by 4/12/02, entered and filed 4/4/02 (signed by Magistrate Judge TommyE. Miller) Copies Mailed: 4/4/02 [EOD Date: 4/4/02] (vwar)
4/4/02	—	CASE REFERRED to Magistrate Judge James E. Bradberry (afor)
4/9/02	57	STIPULATION AND ORDER (Agreed) extending the time for defendants to oppose plaintiff's Motion to Compel Discovery to 4/10/02, entered and filed 4/9/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 4/9/02 [EOD Date: 4/10/02] (vwar) [Entry date 04/10/02] [Edit date 04/10/02]
4/10/02	58	AGREED ORDER extending the time for plaintiff to file its response to defendants' [49-1], [47-1], [45-1] and [51-1] motions for summary judgment, to reset to 4/26/02 for [51-1] motion by eBay, Inc. for *Summary* Judgment that Claims 12, 14,15,17,18,19,

DATE	NO.	PROCEEDINGS
		20,22,24,25,26,27,30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness, reset to 4/26/02 for [49-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 U.S. Patent No. 5,845,265 are "Invalid for Lack of Novelty, reset to 4/26/02 for [47-1] motion by Half.com, Inc: for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid, reset to 4/26/02 for [45-1] motion by eBay, Inc. for Summary Judgment that all claims U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description, and directing defendants to reply to plaintiff's opossition, Reply to Response to Motion reset 5/3/02 , entered and filed 4/9/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 4/9/02 [EOD Date: 4/10/02] (vwar)
4/10/02	59	THIRD MOTION by Mercexchange, L.L.C. to Compel, and to Modify Rule 16(b) Scheduling Order *by* Mercexchange, L.L.C. (with Proposed Order) (vwar) [Entry date 04/11/02] [Edit date 04/11/02]
4/10/02	60	MEMORANDUM in support of [59-1] motion to Compel by Mercexchange, L.L.C., received (UNDER SEAL) (vwar) [Entry date 04/11/02]
4/12/02	61	AGREED ORDER mooting [41-1] motion by Mercexchange, L.L.C. to Compel Discovery, advising that the parties have

DATE	NO.	PROCEEDINGS
		resolved their disputes, entered and filed 4/12/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 4/12/02 [EOD Date: 4/15/02] (vwar) [Entry date 04/15/02]
4/12/02	62	CROSS MOTION by Mercexchange, L.L.C. by Mercexchange, L.L.C. for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description (Proposed Order attached) (vwar) [Entry date 04/15/02] [Edit date 04/15/02]
4/12/02	63	MEMORANDUM by Mercexchange, L.L.C. in support of [62-1] cross motion for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description by Mercexchange, L.L.C., received (vwar) [Entry date 04/15/02]
4/12/02	64	Document filed by plaintiff Mercexchange, L.L.C. titled Statement of Controverted Facts in opposition to [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12,14,15,17,18,19,20,22,24,25,26,27, 30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness by eBay, Inc. (vwar) [Entry date 04/15/02]
4/12/02	65	STATEMENT OF UNDISPUTED FACTS in Support of [62-1] cross-motion for summary judgment by plaintiff Mercexchange, L.L.C. (vwar) (Entry date 04/15/02]

DATE	NO.	PROCEEDINGS
4/12/02	63	MEMORANDUM by Mercexchange, L.L.C. in opposition to [45-1] motion by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description by eBay, Inc., received (vwar) [Entry date 05/17/02]
4/18/02	66	AGREED ORDER directing eBay to file a reply and opposition to plaintiff's cross-motion on 5/7/02, not to exceed 35 pages; and plaintiff will file a reply by 5/14/02 (see order for further details), entered and filed 4/18/02 signed by Judge Jerome B. Friedman) Copies Mailed: 4/18/02 [EOD Date: 4/18/02] (vwar)
4/18/02	67	FOURTH EXPEDITED MOTION by Mercexchange, L.L.C. to Compel Discovery (Proposed Order attached) (vwar) (Entry date 04/19/02] [Edit date 04/19/02]
4/18/02	68	MEMORANDUM by Mercexchange, L.L.C. in support of [67-1] four expedited motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 04/19/02]
4/22/02	69	FIFTH EXPEDITED MOTION by Mercexchange, L.L.C. to Compel Discovery, (Proposed Order attached) (vwar) [Entry date 04/23/02] [Edit date 04/23/02]
4/22/02	70	MEMORANDUM by Mercexchange, L.L.C. in support of [69-1] fifth expedited motion to Compel Discovery by Merc-

DATE	NO.	PROCEEDINGS
		exchange, L.L.C., received. (vwar) [Entry date 04/23/02]
4/22/02	71	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [59-1] third motion to Compel by Mercexchange, L.L.C., received. (vwar) [Entry date 04/23/02]
4/25/02	72	REPLY by Mercexchange, L.L.C. to response to [59-1] motion to Compel by Mercexchange, L.L.C., received (UNDER SEAL). (vwar) [Entry date 04/26/02] [Edit date 05/06/02]
4/26/02	73	MEMORANDUM by Mercexchange, L.L.C. in opposition to [47-1] motion by Half.com, Inc. for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid by Half.com, Inc., received (Exhibit C filed UNDER SEAL pursuant to attorney's letter dated 5/2/02). (vwar) [Entry date 04/29/02] [Edit date 05/06/02]
4/26/02	74	Declaration of. Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [73-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/29/02]
4/26/02	75	Declaration of Ophir, Frieder, Ph.D. by Mercexchange, L.L.C. [73-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/29/02]
4/26/02	76	Document filed by plaintiff Mercexchange, L.L.C. titled "Statement of Controverted

DATE	NO.	PROCEEDINGS
		Facts" [73-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/29/02]
4/26/02	77	MEMORANDUM by Mercexchange, L.L.C. in opposition to [49-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty, received (vwar) [Entry date 04/30/02]
4/26/02	78	Declaration of Alfred C. Weaver, Ph.D. by Mercexchange, L.L.C. [77-1] opposition memorandum (vwar) [Entry date 04/30/02]
4/26/02	79	Declaration of Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [77-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	80	Document filed by plaintiff Mercexchange, L.L.C. titled "Plaintiff's Statement of Controverted Facts in Opposition to Defendants' Joint Motion for Summary Judgment, etc." [77-1]-opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	81	MEMORANDUM by Mercexchange, L.L.C. in opposition to [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12,14,15,17,18,19,20,22,24,25,26,27, 30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness by eBay, Inc., received (vwar) [Entry date 04/30/02]

DATE	NO.	PROCEEDINGS
4/26/02	82	Declaration of Thomas G. Wollston by Mercexchange, L.L.C. [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	83	Declaration of Alfred C. Weaver, Ph.D. by Mercexchange, L.L.C. [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	84	Declaration of Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/26/02	85	Document filed by plaintiff Mercexchange, L.L.C. titled "Plaintiff's Statement of Controverted Facts in Opposition to Defendant's Motion for Summary Judgment, etc." [81-1] opposition memorandum by Mercexchange, L.L.C. (vwar) [Entry date 04/30/02]
4/29/02	86	Declaration by eBay, Inc. of Yuen Ho Re: [71-1] opposition memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/30/02]
4/29/02	87	Declaration by eBay, Inc. of Brett .Healy Re: [71-1] opposition memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar) [Entry date 04/30/02]
		* * * *
5/28/02	114	NOTICE of Hearing: set for 5/30/02 at 10:00 a.m. on plaintiff's Motion to Strike Fictitious Drawing in Connection with Defendants' Joint Motion for Partial

DATE	NO.	PROCEEDINGS
		Summary Judgment that Certain Claims of United States Patent No. 5,845,265 are Allegedly Invalid for Lack of Novelty (vwar) (Entry date 05/29/02]
5/30/02	—	Motion hearing held re: [89-1] motion by Mercexchange, L.L.C. to Strike Fictitious Drawing in Connection with Defendants' Joint Motion for Partial Summary Judgment [62-1] cross motion by Mercexchange, L.L.C. for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12,14,15,17,18,19,20,22,24,25,26,27, 30,31,32,34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness, [49-1] motion by Return-buy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1, 4, 5, 8, 10, 13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty [47-1] motion by Half.com, Inc. for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid, [45-1] motion by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description. (bwin)
5/30/02	115	Court Proceedings: JBF, USDJ. Sue Ash, OCR. Counsel appeared. Came for hearing on motions. Arguments heard. Court takes matter under advisement. (bwin)

DATE	NO.	PROCEEDINGS
5/31/02	116	ORDER directing that the deposition of John C. Phillips be conducted in Reston, Virginia as previously agreed, and that said deposition shall take place on 6/4/02, entered and filed 5/31/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 5/31/02 [EOD Date: 5/31/02] (vwar)
5/31/02	117	TRANSCRIPT OF PROCEEDINGS for dates of 5/13/02, before USMJ James E. Bradberry (vwar)
6/12/02	118	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery, and by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Extend discovery deadline (dmas)
6/12/02	119	MEMORANDUM in support of [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery, [118-2] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Extend discovery deadline, received. (dmas)
6/12/02	120	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Hearing on motion to compel and to extend discovery deadline (dmas)
6/14/02	121	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery (vwar)
6/14/02	122	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in support of [121-1] motion to Compel Discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar)

DATE	NO.	PROCEEDINGS
6/14/02	123	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Hearing on Motion to Compel (vwar)
6/14/02	124	EXPEDITED SIXTH MOTION by Mercexchange, L.L.C. to Compel Discovery (with proposed order) (vwar) [Edit date 06/14/02]
6/14/02	125	MEMORANDUM by Mercexchange, L.L.C. in support of [124-1] expedited sixth motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., received (vwar)
6/14/02	126	MEMORANDUM by Mercexchange, L.L.C. in opposition to [118-1] motion to Compel discovery by Returnbuy, Inc., Half.com, inc., eBay, Inc., received. (FILED UNDER SEAL) (vwar) [Edit date 06/14/02]
6/17/02	127	MOTION by Mercexchange, L.L.C. for Protective Order (Proposed Order attached) (vwar) [Entry date 06/18/02]
6/17/02	128	MEMORANDUM by Mercexchange, L.L.C. in support of [127-1] motion for Protective Order by Mercexchange, L.L.C., received. (vwar) [Entry date 06/18/02]
6/17/02	—	Deadline updated: to reset to 7/2/02 for [127-1] motion by Mercexchange, L.L.C. for Protective Order (vwar) [Entry date 06/18/02]

DATE	NO.	PROCEEDINGS
6/18/02	129	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [127-1] motion by Mercexchange, L.L.C. for Protective Order, received. (vwar)
6/18/02	130	MEMORANDUM by Mercexchange, L.L.C. in opposition to [121-1] motion to Compel Discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar) (Entry date 06/19/02]
6/19/02	131	MOTION by Mercexchange, L.L.C. for Protective Order (Proposed Order attached) (vwar) [Entry date 06/20/02]
6/19/02	132	MEMORANDUM by Mercexchange, L.L.C. in support of [131-1] motion for Protective Order by Mercexchange, L.L.C., received. (vwar) [Entry date 06/20/02]
6/20/02	—	Motion hearing [124-1] motion by Mercexchange, L.L.C. to Compel Discovery set at 2:30 6/24/02, [121-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery set at 2:30 6/24/02, [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery set at 2:30 6/24/02 (vwar) [Entry date 06/21/02]
6/21/02	133	REPLY by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to response to [121-1] motion to Compel Discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (FILED UNDER SEAL) (vwar)

DATE	NO.	PROCEEDINGS
6/21/02	134	MEMORANDUM by eBay, Inc. in opposition to [124-1] sixth expedited motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., received. (vwar)
6/21/02	135	REPLY by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to response to [118-1] motion to Compel discovery and for extension of discovery deadline by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (vwar)
6/21/02	135	Declaration of Steven R. Zahn by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [135-1] response reply by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
6/21/02	136	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [131-1] motion by Mercexchange, L.L.C. for Protective Order, received (FILED UNDER SEAL) (vwar)
6/24/02	137	NOTICE of Hearing: set for 6/24/02 at 2:30 p.m. on defendants' motion to compel discovery and for extension of discovery deadline, defendants' motion to compel discovery, and plaintiff's expedited sixth motion to compel discovery. (vwar)
6/24/02	—	Motion hearing held re: [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery by Returnbuy, Inc., Half.com, Inc., eBay, Inc., [121-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery by Returnbuy,

DATE	NO.	PROCEEDINGS
		Inc., Half.com, Inc., eBay, Inc., [124-1] motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C. (glen) (Entry date 06/25/02]
6/24/02	138	MINUTE ENTRY: Hearing Proceedings; JEB, j.; Penny Wile, OCR; appearances by counsel; matter came on for #118, #121, and #124 motions to compel; court made rulings on the record and will prepare an order. (glen) [Entry date 06/25/02]
6/25/02	139	MOTION by Mercexchange, L.L.C. for Contempt (with proposed order filed UNDER SEAL) (vwar) [Edit date 06/26/02]
6/25/02	140	MEMORANDUM by Mercexchange, L.L.C. in support of [139-1] motion for Contempt with REspect to Court's Order Compelling Discovery by Mercexchange, L.L.C. (Filed UNDER SEAL) (vwar)
6/26/02	141	TRANSCRIPT OF PROCEEDINGS for dates of 6/24/02, Before USMJ Bradberry (vwar)
6/26/02	142	ORDER granting [124-1] motion by Mercexchange, L.L.C. to Compel Discovery, granting in part, denying in part [121-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel Discovery, granting in part, denying in part [118-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel discovery, granting [118-2] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Extend discovery deadline to July 8, 2002, setting forth terms on each

DATE	NO.	PROCEEDINGS
		motion, see order for specifics, entered and filed 6/26/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 6/26/02 [EOD Date: 6/26/02] (vwar)
6/26/02	143	REPLY by Mercexchange, L.L.C. to response to [131-1] motion for Protective Order by Mercexchange, L.L.C., received. (vwar) [Entry date 06/27/02]
6/26/02	144	Minute entry: Telephone conference held on 6/18/02 with USMJ Bradberry and counsel for the plaintiff and defendant regarding depositions and other discovery issues, entered and filed 6/27/02 (vwar) [Entry date 06/27/02]
6/27/02	145	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Timothy Scott Teter to appear pro hac vice Filing Fee Paid $ 25.00; Receipt #35010 (vwar) [Edit date 07/09/02]
6/28/02	146	MOTION by Mercexchange, L.L.C. for Markman Hearing, and by Mercexchange, L.L.C. for Modification to the Scheduling Order (Proposed Order attached) (vwar) [Entry date 07/01/02] [Edit date 07/01/02]
6/28/02	147	MEMORANDUM by Mercexchange, L.L.C. in support of [146-1] motion for Markman Hearing, [146-2] motion by Mercexchange, for Modification to the Scheduling Order, received. (vwar) [Entry date 07/01/02]

DATE	NO.	PROCEEDINGS
6/28/02	—	Motion hearing [146-2] motion by Mercexchange, L.L.C. for Modification to the Scheduling Order set at 7/30/02 (vwar) [Entry date 07/29/02]
6/28/02	—	Motion hearing [146-1] motion by Mercexchange, L.L.C. for Markman Hearing set at 7/30/02 (vwar) [Entry date 07/29/02]
7/1/02	—	So Ordered: granting [145-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Timothy Scott Teter to appear pro hac vice Filing Fee Paid $ 25.00 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/1/02 (vwar)
7/1/02	148	Minute entry: COURT PROCEEDINGS; (JEB, USMJ) (Penny Wiley, OCR); Mr. G. Stillman, Esq. appeared on behalf of the pltf. Mr. R. McFarland, Eq. and Mr. J. Randall, Esq. apeared on behalf of deft E Bay, et al. Matter came before the court by motion by pltf for protective order (127). Arguments heard. Court granted in part/denied in part the protective order. Court to submit an order. (nlyt)
7/3/02	149	ORDER granting in part, denying in part [131-1] motion by Mercexchange, L.L.C. for Protective Order, (see Order for specifics), directing plaitniff to respond to the requests for admissions on or before 7/8/02, entered and filed 7/3/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 7/3/02 [EOD Date: 7/3/02] (vwar)

DATE	NO.	PROCEEDINGS
7/8/02	150	MEMORANDUM by eBay, Inc., Pierre Omidyar in opposition to [139-1] motion by Mercexchange, L.L.C. for Contempt, received. (vwar) [Entry date 07/09/02]
7/8/02	151	EXPEDITED SEVENTH MOTION by Mercexchange, L.L.C. to Compel Discovery (FILED UNDER SEAL with proposed order) (vwar) [Entry date 07/09/02]
7/8/02	152	MEMORANDUM by Mercexchange, L.L.C. in support of [151-1] expedited seventh motion Compel Discovery, received (FILED UNDER SEAL) (vwar) [Entry date 07/09/02]
7/10/02	153	ORDER granting [89-1] motion by Mercexchange, L.L.C. to Strike Fictitious Drawing in Connection with Defendants' Joint Motion for Partial Summary Judgment denying [51-1] motion by eBay, Inc. for Summary Judgment that Claims 12, 14,15,17,18,19,20,22,24,25,26,27,30,31,32, 34 and 35 of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and for Obviousness, denying [49-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Summary Judgment that Claims 1,4,5,8,10,13, 15,17,20,22,23 and 26 of U.S. Patent No. 5,845,265 are Invalid for Lack of Novelty, entered and filed 7/10/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/10/02 [EOD Date: 7/10/02] (vwar)

DATE	NO.	PROCEEDINGS
7/11/02	154	REPLY by Mercexchange, L.L.C. to response to [139-1] motion for Contempt by Mercexchange, L.L.C., received. (vwar) [Entry date 07/12/02]
7/12/02	155	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc., to Require MercExchange to Comply with Court Order (vwar)
7/12/02	156	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in support of [155-1] motion to Require MercExchange to Comply with Court Order by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar)
7/12/02	157	Request for Expedited Hearing by defendants on Motion to Require MercExchange to Comply with Court Order by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/18/02	158	MEMORANDUM by Mercexchange, L.L.C. in support of Claim Construction Arguments for Markman Hearing, received. (FILED UNDER SEAL) (vwar) [Entry date 07/19/02]
7/19/02	159	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in support of Claim Construction for United States Patent Nos. 5,845,265; 6,085,176 and 6,202,051 Submitted by Defendants, received. (FILED UNDER SEAL) (vwar)
7/19/02	160	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [151-1] motion to Compel Discovery by

DATE	NO.	PROCEEDINGS
		Mercexchange, L.L.C., received. (vwar) [Entry date 07/22/02]
7/19/02	161	TRANSCRIPT OF PROCEEDINGS for dates of 5/30/02, before USDJ Jerome B. Friedman, OCR - Susanne V. Ash (vwar) [Entry date 07/22/02]
7/22/02	167	Document filed by defendants requesting clarification of Court's July 10, 2002 Order (vwar) [Entry date 07/23/02]
7/23/02	162	Rebuttal Brief [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc., (FILED UNDER SEAL) received. (vwar)
7/23/02	163	Declaration of Michael Ian Shamos, Ph.D., J.D. by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/23/02	164	Declaration of Dr. Arthur M. Keller, Ph.D. by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/23/02	165	MOTION by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc. (FILED UNDER SEAL) (vwar) [Edit date 07/23/02]
7/23/02	166	MEMORANDUM by eBay, Inc. in support of [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and

DATE	NO.	PROCEEDINGS
		include an inequitable conduct affirmative defense by eBay, Inc. (FILED UNDER SEAL), received. (vwar)
7/23/02	166	Declaration of Allan M. Soobert by eBay, Inc. [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc. (vwar)
7/23/02	168	MEMORANDUM by Mercexchange, L.L.C. in opposition to [155-1] motion to Require MercExchange to Comply with Court Order by Returnbuy, Inc., Half.com, Inc., eBay, Inc., received. (vwar)
7/23/02	169	Reply by Mercexchange, L.L.C. to [158-1] support memorandum by Mercexchange, L.L.C., received. (vwar)
7/24/02	170	REPLY by Mercexchange, L.L.C. to response to [151-1] expedited seventh motion to Compel Discovery by Mercexchange, L.L.C., received (vwar) [Entry date 07/25/02]
7/25/02	171	ORDER clarifying [153-1] order on denial of motions for summary judgment, entered and filed 7/25/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/25/02 [EOD Date: 7/26/02] (vwar) [Entry date 07/26/02]
7/26/02	172	Minute entry: Court Proceedings; (JEB, USMJ) (Penny Wile, O.C.R.); Mr. Stillman, Esq. appeared on behalf of pltf. Mr. McFarland, Esq. and Mr. Randall, Esq.

DATE	NO.	PROCEEDINGS
		appeared on behalf of the defts. Matter came before the court on a moton by defts to require pltf to comply with Court Order. (155). Arguments heard. Court granted in part/denied in part deft's motion. Court to submit order. (nlyt)
7/29/02	173	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Alan Arthur Wright to appear pro hac vice Filing Fee Paid $ 25.00; Receipt #35293 (vwar) [Edit date 07/30/02]
7/29/02	174	Declaration of Steven R. Zahn in Support of Submission to the Court of U.S. Paten Application Serial No. 08/427,820 by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (FILED UNDER SEAL) (vwar) [Edit date 07/29/02]
7/29/02	175	Declaration of Steven R. Zahn in Support of Submission to the Court of U.S. Patent Application Searial No. 09/253,021 by eBay, Inc., Half.com, Inc., Returnbuy, Inc. [159-1] support memorandum by Returnbuy, Inc., Half.com, Inc., eBay, Inc. (vwar)
7/29/02	—	So Ordered: granting (173-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Alan Arthur Wright to appear pro hac vice Filing Fee Paid $ 25.00 (signed by Judge Jerome B. Friedman) Copies Mailed: 7/30/02 (vwar) [Entry date 07/30/02]
7/29/02	176	MOTION with Memorandum in Support by eBay, Inc., Half.com, Inc., Returnbuy, Inc. by Returnbuy, Inc., Half.com, Inc., eBay,

DATE	NO.	PROCEEDINGS
		Inc. to Compel - Application for Order Requiring MercExchange to Answer Certain Requests for Admission (vwar) [Entry date 07/30/02]
7/30/02	—	Markman hearing held. (mgra)
7/30/02	177	Minute entry: HEARING PROCEEDINGS: JBF, j. Sue Ash, OCR, and Sharon Gregory, court reporter. Counsel appeared. Matter came on for Markman hearing. Opening statements. Argued. Court adjourned until tomorrow at 9:30 a.m... (mgra)
7/30/02	178	ORDER granting in part, denying in part [155-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Require MercExchange to Comply with Court Order (see order for specifics), entered and filed 7/30/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 7/30/02 [EOD Date: 7/31/02] (vwar) [Entry date 07/31/02]
7/31/02	179	TRANSCRIPT OF MARKMAN HEARING (DAY 1) for dates of 7/30/02, before USDJ Friedman, Susanne V. Ash, OCR (vwar)
7/31/02	180	Minute entry: HEARING PROCEEDINGS: JBF, USDJ. Sue Ash, OCR (am); Sharon Gregory (pm). Counsel appeared. Matter came on for continuation of Markman Hearing. Arguments heard. Rebuttal. Court takes matter under advisement. Court adjourned. (sche)

DATE	NO.	PROCEEDINGS
8/1/02	181	TRANSCRIPT of Markman Hearing before Judge Friedman on 7/30/02 (Day 1-B) (ariv)
8/1/02	182	TRANSCRIPT of Markman Hearing before Judge Friedman on 7/31/02 (Day 2A) (ariv)
8/2/02	183	TRANSCRIPT OF MARKMAN HEARING - DAY 2-B for dates of 7/31/02, before USDJ Frieedman, Sharon Baham Gregory, RPR (vwar) [Entry date 08/05/02]
8/5/02	184	MEMORANDUM by Mercexchange, L.L.C. in opposition to [165-1] motion by eBay, Inc. to Amend (19-1] answer to conform to proof and include an inequitable conduct affirmative defense, with attached appendix of exhibits, received. (FILED UNDER SEAL) (vwar) [Entry date 08/06/02] [Edit date 08/06/02]
8/6/02	—	Jury Trial set at 11/12/02 before Judge Jerome B. Friedman (vwar)
8/6/02	185	TRANSCRIPT OF PROCEEDINGS for dates of 7/26/02, before USMJ Bradberry, Penny C. Wile, OCR (vwar)
8/8/02	186	Document filed by defendants titled "Defendants' Identification of Videotaped Deposition Excerpts Played During Markman Hearing" (vwar) [Entry date 08/09/02]
8/8/02	187	REPLY by eBay, Inc. to response to [165-1] motion to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 08/09/02] [Edit date 08/09/02]

DATE	NO.	PROCEEDINGS
8/9/02	188	MEMORANDUM by Mercexchange, L.L.C. in opposition to [176-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel - Application for Order Requiring MercExchange to Answer Certain Requests for Admission, received. (vwar)
8/13/02	189	REPLY by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to response to [155-1] motion to Require MercExchange to Comply with Court Order, received. (vwar) [Entry date 08/14/02]
8/30/02	190	EXPEDITED EIGHTH MOTION by Mercexchange, L.L.C. to Compel Discovery (vwar)
8/30/02	191	MEMORANDUM by Mercexchange, L.L.C. in support of [190-1] expedited eighth motion to Compel Discovery, received (FILED UNDER SEAL) (vwar)
9/5/02	192	ORDER Amending [34-1] order, setting out certain deadlines as follows: Trial Date scheduled for 11/12/02, at 10:00 a.m., Final Pretrial Conference scheduled for 11/1/02, at 2:00 p.m., proposed voir dire and jury instructions shall be delivered to the Clerk on or before 11/5/02, entered and filed 9/5/02 (signed by. Magistrate Judge James E. Bradberry) Copies Mailed: 9/5/02 [EOD Date: 9/6/02] (vwar) [Entry date 09/06/02]
9/5/02	—	Final Pre-Trial Conference set at 2:00 p.m., 11/1/02 before Magistrate Judge James E. Bradberry (vwar) [Entry date 09/06/02]

DATE	NO.	PROCEEDINGS
9/10/02	193	MEMORANDUM by eBay, Inc. in opposition to [190-1] motion by Mercexchange, L.L.C. to Compel Discovery, received. (vwar) [Entry date 09/11/02]
9/12/02	—	Motion hearing held re: [176-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. to Compel - Application for Order Requiring MercExchange to Answer Certain Requests for Admission by Returnbuy, Inc., Half.com, Inc., eBay, Inc., [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc. by eBay, Inc. (bpea)
9/12/02	194	Minute entry: COURT PROCEEDINGS: JBF, j. Sue Ash, OCR. Counsel appeared. Matter came on for hearing on motion to amend (#165), and motion to compel (#176). Argued. Motion to amend - court directed deft. to provide the court and counsel the proposed amended pleading by Sept. 17, 2002, pltfs. to respond by Sept. 24, 2002, and any reply by Sept. 30, 2002 - court taking the motion under advisement at this time. Motion to compel - court directed pltf. to respond 10 days after the court renders a decision on the Markman Hearing. (bpea)
9/13/02	195	REPLY by Mercexchange, L.L.C. to response to (190-1] Eighth motion to Compel Discovery, received (FILED UNDER SEAL) (vwar) [Entry date 09/17/02]

DATE	NO.	PROCEEDINGS
9/17/02	196	FIRST AMENDED ANSWER to Complaint by eBay, Inc. : amends [30-1] complaint answer by eBay, Inc.; jury demand (vwar)
9/20/02	197	MOTION by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order (FILED UNDER SEAL with Proposed Order) (vwar) [Entry date 09/23/02]
9/20/02	198	MEMORANDUM by Mercexchange, L.L.C. in support of [197-1] motion to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order, received (FILED UNDER SEAL) (vwar) [Entry date 09/23/02]
9/23/02	199	TRANSCRIPT OF PROCEEDINGS (Telephone Conference) for dates of 9/19/02, before USMJ Jerome B. Friedman, Susanne V. Ash, OCR (vwar) [Entry date 09/24/02]
9/24/02	200	MOTION by Mercexchange, L.L.C. to Dismiss, and/or by Mercexchange, L.L.C. to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for Leave to Amend Answer (vwar) [Entry date 09/25/02]
9/24/02	201	MEMORANDUM by Mercexchange, L.L.C. in support of [200-1] motion to Dismiss by Mercexchange, L.L.C., [200-2]

DATE	NO.	PROCEEDINGS
		motion to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for Leave to Amend Answer, received (FILED UNDER SEAL) (vwar) [Entry date 09/25/02]
9/25/02	—	Jury Trial set at 4/22/03, at 10:00 a.m., before Judge Jerome B. Friedman (vwar) [Edit date 09/27/02]
9/25/02	—	Jury Trial set at 10:00 4/22/03 before Judge Jerome B. Friedman (vwar) [Entry date 09/27/02]
10/1/02	202	REPLY by eBay, Inc. to response to (165-1] motion to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense, received (FILED UNDER SEAL) (vwar) [Entry date 10/02/02]
10/1/02	203	MEMORANDUM by eBay, Inc. in opposition to ['197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order, received (FILED UNDER SEAL) (vwar) [Entry date 10/02/02]
10/1/02	202	Declaration of Robert W. McFarland by eBay, Inc. [202-1] response reply by eBay, Inc. (vwar) [Entry date 10/02/02]
10/2/02	204	Declaration of Robert W. McFarland by eBay, Inc. [203-1] opposition memorandum by eBay, Inc. (vwar)

DATE	NO.	PROCEEDINGS
10/4/02	205	REPLY by Mercexchange, L.L.C. to response to [197-1] motion to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order, received (vwar) [Entry date 10/07/02]
10/4/02	206	REPLY by Mercexchange, L.L.C. to response to [200-1] motion to Dismiss, [200-2] motion to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for to Amend Answer, received (FILED UNDER SEAL) (vwar) [Entry date 10/07/02]
10/15/02	—	Final Pre-Trial Conference set at 9:30 4/7/03 before Magistrate Judge James E. Bradberry (vwar)
10/16/02	—	Motion hearing [197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order set at 2:30 11/13/02, [190-1] motion by Mercexchange, L.L.C. to Compel Discovery set at 2:30 11/13/02, [151-1] motion by Mercexchange, L.L.C. to Compel Discovery set at 2:30 11/13/02, [139-1] motion by Mercexchange, L.L.C. for Contempt set at 2:30 11/13/02 before Magistrate Judge James E. Bradberry (vwar) [Entry date 10/17/02]

DATE	NO.	PROCEEDINGS
10/17/02	208	NOTICE of Hearing: scheduled for 11/13/02, at 2:30 p.m. before USMJ Bradberry on Plaintiff's Motion to Strike, Eighth Motion to Compel, Seventh Motion to Compel and Motion for Contempt (vwar) [Entry date 10/18/02]
10/18/02	207	ORDER AND OPINION regarding Markman hearing held on 7/30/02 and 7/31/02, regarding the construction of the claims in the '051, '176, and '265 patents (see order for specifics), entered and filed 10/18/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 10/18/02 [EOD Date: 10/18/02] (vwar)
10/18/02	209	MOTION by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, with proposed order (vwar) [Entry date 10/21/02] [Edit date 10/21/02]
10/18/02	210	MEMORANDUM by Mercexchange, L.L.C. in support of [209-1] motion to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, 2 versions received, redacted and unredacted versions (FILED UNDER SEAL) (vwar) [Entry date 10/21/02] [Edit date 10/21/02]
10/18/02	210	Declaration of Thomas G. Woolston by Mercexchange, L.L.C. [210-1] support memorandum, 2 versions - redacted and unredacted versions (FILED UNER SEAL)

DATE	NO.	PROCEEDINGS
		(vwar) [Entry date 10/21/02] [Edit date 10/21/02]
10/21/02	211	ORDER denying [200-1] motion by Mercexchange, L.L.C. to Dismiss, denying [200-2] motion by Mercexchange, L.L.C. to Strike Defendant eBay, Inc.'s Sixth Affirmative Defense of Inequitable Conduct and in Further Opposition to eBay's Motion for Leave to Amend Answer, granting [165-1] motion by eBay, Inc. to Amend [19-1] answer to conform to proof and include an inequitable conduct affirmative defense by eBay, Inc., entered and filed 10/21/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 10/21/02 [EOD Date: 10/22/02] (vwar) [Entry date 10/22/02]
10/21/02	212	ORDER granting in part, denying in part [62-1] cross motion by Mercexchange, L.L.C. for Summary Judgment that all Claims of U.S. Patent 6,202,051 have an Adequate Written Description, denying [47-1] motion by Half.com, Inc... for Summary Judgment that Claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 are Invalid, granting in part, denying in part (45-1] motion by eBay, Inc. for Summary Judgment that all claims of U.S. Patent No. 6,202,051 are Invalid for an Inadequate Written Description (signed by Judge Jerome B. Friedman), entered and filed 10/21/02 Copies Mailed: 10/21/02 [EOD Date: 10/22/02] (vwar) [Entry date 10/22/02]

DATE	NO.	PROCEEDINGS
10/23/02	213	TRANSCRIPT OF PROCEEDINGS for dates of 9/12/02, before *USDJ* Jerome B. Friedman, Susanne V. Ash, OCR (vwar)
11/1/02	214	MOTION by Mercexchange, L.L.C. for Reconsideration of [212-1] order (Proposed Order attached) (vwar) [Entry date 11/04/02] [Edit date 11/04/02]
11/1/02	215	MEMORANDUM by Mercexchange, L.L.C. in support of [214-1] motion for Reconsideration of [212-1] order, received. (vwar) [Entry date 11/04/02]
11/12/02	216	MEMORANDUM by eBay, Inc. in opposition to [214-1] motion by Mercexchange, L.L.C. for Reconsideration of [212-1] order, received (vwar)
11/13/02	—	Motion hearing held re: [197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order by Mercexchange, L.L.C., (190-1] motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., [151-1] motion by Mercexchange, L.L.C. to Compel Discovery by Mercexchange, L.L.C., [139-1] motion by Mercexchange, L.L.C. for Contempt by Mercexchange, L.L.C. (nlyt) [Entry date 11/14/02]
11/13/02	217	Minute entry: COURT PROCEEDING; (JEB, USMJ); (Horace Weiss, Zahn, Hall, Zahn). Gregory Stillman, Esq. and Scott L. Robertson, Esq. appeared on behalf of the

DATE	NO.	PROCEEDINGS
		pltf. Robert McFarland, Esq. and Jeffrey G. Randall, Esq. appeared on behalf of the defendants. Matter came before the court on motions filed by Mercexchange, LLC as follows: (197-1) to strike defts untimely expert report prior art and invalidity allegation; 2) (190-1) to compel discovery (8th); 3)(151-1) to compel discovery; 4)(139-1) for contempt. Court made rulings on the record; court to submit order. (nlyt) [Entry date 11/14/02]
11/15/02	218	POST-MARKMAN MOTION by eBay, Inc. for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 (FILED UNDER SEAL) (vwar) [Edit date 11/15/02] 0
11/15/02	219	MEMORANDUM by eBay, Inc. in support of [218-1] motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051, received (FILED UNDER SEAL) (vwar)
11/15/02	219	Declaration of Robert W. McFarland by eBay, Inc. [219-1] support memorandum (FILED UNDER SEAL) (vwar)
11/15/02	220	POST-MARKMAN MOTION by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265 (FILED UNDER SEAL) (vwar)
11/15/02	221	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of [220-1] motion for Summary Judgment of Noninfringement of

DATE	NO.	PROCEEDINGS
		Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265, received (FILED UNDER SEAL) (vwar)
11/15/02	221	Declaration of Robert W. McFarland by eBay, Inc., Half.com, Inc. [221-1] support memorandum (FILED UNDER SEAL) (vwar)
11/15/02	222	REPLY by Mercexchange, L.L.C. to response to [214-1] motion for Reconsideration of [212-1] order, received (FILED UNDER SEAL) (vwar) [Entry date 11/18/02]
11/18/02	223	ORDER directing parties to confer on supplemental responses Re: [190-1] motion (see order for specifics), directing parties to complete their conference on, or before 11/25/02, and to inform the court if additional direction is needed, entered and filed 11/18/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/18/02 [EOD Date: 11/19/02] (vwar) [Entry date 11/19/02]
11/18/02	224	ORDER directing plaintiff to notify defendants of any desired additional discovery pertaining to "inequitable conduct defense" by 12/10/02 (see order for specifics), entered and filed 11/18/02 (signed by Magistrate Judge James. E. Bradberry) Copies Mailed: 11/18/02 [EOD Date: 11/19/02] (vwar) [Entry date 11/19/02]

DATE	NO.	PROCEEDINGS
11/19/02	225	ORDER denying plaintiff's motion for production of e-mail messages (see order for specifics), entered 11/18/02, filed 11/19/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	226	ORDER denying [197-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Report, Prior Art, and Invalidity Allegations in Violation of this Court's Scheduling Order (see order for specifics), entered 11/18/02, filed 11/19/02 (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	227	ORDER directing eBay to answer Interrogatory 26, directing Half.com to answer Interrogatory 23, directing Returnbuy to answer Interrogatory 20, and directing Rubash to be redepose within 21 days from the date of this order (see order for specifics), entered 11/18/02, filed 11/19/02 signed by Magistrate Judge James E. Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	228	ORDER directing eBay to notify plaintiff if there are documents not produced pursuant to the subpoena duces tecum issued to Omidyar, directing eBay to produce all requested documents not yet produced, including corporate minutes (see order for specifics), entered 11/18/02, filed 11/19/02 (signed by Magistrate Judge James E.

DATE	NO.	PROCEEDINGS
		Bradberry) Copies Mailed: 11/19/02 [EOD Date: 11/19/02] (vwar)
11/19/02	229	TRANSCRIPT OF HEARING ON MOTIONS, for dates of 11/13/02, before USMJ James E. Bradberry, Horace P. Weiss, OCR (vwar)
12/3/02	230	MEMORANDUM by eBay, Inc., Half.com, Inc., Returnbuy, Inc. in opposition to [209-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald *J.* Mossinghoff and for Protective Order, received (FILED UNDER SEAL) (vwar)
12/3/02	231	MOTION by Mercexchange, L.L.C.for Leave to File Summary Judgment Opposition in Excess of 30 Pages (vwar) [Entry date 12/04/02]
12/6/02	232	Response by eBay, Inc., Half.com, Inc., Returnbuy, Inc. to [231-1] motion by Mercexchange, L.L.C.for Leave to File Summary Judgment Opposition in Excess of 30 Pages, received. (vwar)
12/11/02	233	REPLY by Mercexchange, L.L.C. to response to [231-1] motion for Leave to File Summary Judgment Opposition in Excess of 30 Pages, received. (vwar)
12/13/02	234	REPLY by Mercexchange, L.L.C. to response to [209-1] motion to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, received (FILED UNDER SEAL) (vwar) [Entry date 12/16/02]

DATE	NO.	PROCEEDINGS
12/13/02	235	REPLY by eBay, Inc., Half.com, Inc. to response to [220-1] motion for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265 by Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 12/16/02]
12/13/02	236	NOTICE of by eBay; Inc. of Submission of Reply Memorandum in Support of eBay's Post-Markman Motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 (vwar) [Entry date 12/16/02]
12/13/02	237	REPLY by eBay, Inc. to response to [218-1] motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 12/16/02]
12/16/02	238	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Consideration of Defendants' Motion for Expedited Relief in View of Woolston's New State Bar Complaint Against eBay's Expert, Who has a New Year's Eve Deadline to Respond (FILED UNDER SEAL) (vwar)
12/16/02	239	MOTION by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Relief in View of Woolston's New State Bar Complaint Against eBay's Expert, Who has a New Year's Eve Deadline to Respond (FILED UNDER SEAL) (vwar)

DATE	NO.	PROCEEDINGS
12/20/02	240	ORDER granting [239-1] motion by Returnbuy, Inc., Half.com, Inc., eBay, Inc. for Expedited Relief in View of Woolston's New State Bar Complaint Against eBay's Expert, Who has a New Year's Eve Deadline to Respond, denying [209-1] motion by Mercexchange, L.L.C. to Strike Defendants' Untimely Expert Reports and to Disqualify Gerald J. Mossinghoff and for Protective Order, entered and filed 12/20/02 (signed by Judge Jerome B. Friedman) Copies Mailed: 12/20/02 [EOD Date: 12/23/02] (vwar) [Entry date 12/23/02]
12/23/02	241	POST-MARKMAN MOTION by Mercexchange, L.L.C.for Partial Summary Judgment of Willful Patent Infringement by Defendants eBay, Inc. and Half.Com, Inc. of U.S. Patent No. 5,845,265 with proposed order attached (FILED UNDER SEAL) (vwar) [Entry date 12/24/02] [Edit date 12/24/02]
12/23/02	242	MEMORANDUM by Mercexchange, L.L.C. in support of [241-1] motion for Partial Summary Judgment of Willful Patent Infringement by Defendants eBay, Inc. and Half.Com, Inc. of U.S. Patent No. 5,845, 265, received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02] [Edit date 12/24/02]
12/23/02	242	STATEMENT OF UNDISPUTED FACTS Re: [242-1] memorandum in support by plaintiff Mercexchange, L.L.C., received

DATE	NO.	PROCEEDINGS
		(FILED UNDER. SEAL) (vwar) [Entry date 12/24/02]
12/23/02	242	Declaration of Brian M. Buroker by Mercexchange, L.L.C. [242-1] support memo randum by Mercexchange, L.L.C., (Two Redwells) received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02] [Edit date 12/24/02]
12/23/02	242	Declaration of Alfred C. Weaver, Ph.D. by Mercexchange, L.L.C. [242-1] support memorandum, received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02]
12/23/02	242	Declaration of Michael P.F. Phelps by Mercexchange, L.L.C. [242-1] support memorandum, received (Two Redwells) (FILED UNDER SEAL) (vwar) [Entry date 12/24/02]
12/23/02	242	Declaration of Jonathan W. Palmer, Ph.D. by Mercexchange, L.L.C. [242-1] support memorandum, received (FILED UNDER SEAL) (vwar) [Entry date 12/24/02]
12/27/02	243	MOTION by Mercexchange, L.L.C. to Compel, and by Mercexchange, L.L.C. Resume Depositions of Mr. Pierre Omidyar and John Monahan, Jr., with proposed order attached (vwar) [Entry date 12/30/02] [Edit date 12/30/02]
12/27/02	244	MEMORANDUM by Mercexchange, L.L.C. in support of [243-1] motion by Mercexchange, L.L.C. to Compel, [243-2] motion by Mercexchange, L.L.C. Resume

DATE	NO.	PROCEEDINGS
		Depositions of Mr. Pierre Omidyar and John Monahan, Jr., received (FILED UNDER SEAL) (vwar) [Entry date 12/30/02]
1/7/03	245	NOTICE of Appearance by Kermit A. Rosenberg, Esq. as counsel for ReturnBuy, Inc. (vwar) [Entry date 01/08/03]
1/8/03	246	CONSENT MOTION by Returnbuy, Inc. to Substitute Attorney (vwar) [Entry date 01/10/03]
1/9/03	247	ORDER granting [246-1] motion by Returnbuy, Inc. to Substitute Attorney terminated attorney Allan Madis Soobert for Returnbuy, Inc. Added Kermit A. Rosenberg, entered and filed 1/9/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 1/10/03 [EOD Date: 1/10/03] (vwar) [Entry date 01/10/03]
1/10/03	248	MOTION by Mercexchange, L.L.C. for Entry of Proposed Second Modified Scheduling Order (Proposed Scheduling Order attached) (vwar) [Entry date 01/13/03]
1/10/03	249	MEMORANDUM by Mercexchange, L.L.C. in support of [248-1] motion for Entry of Proposed Second Modified Scheduling Order, received (vwar) [Entry date 01/13/03]
1/13/03	250	ORDER and OPINION denying [214-1] motion by Mercexchange, L.L.C. for Reconsideration of [212-1] order, entered and filed 1/13/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 1/13/03 [EOD Date: 1/13/03] (vwar)

DATE	NO.	PROCEEDINGS
1/14/03	251	MOTION by eBay, Inc. to Enforce Judge Friedman's September 19 and November 22 Orders (FILED UNDER SEAL) (vwar) [Entry date 01/16/03]
1/14/03	251	MEMORANDUM by eBay, Inc. in opposition to [243-2] motion by Mercexchange, L.L.C. Resume Depositions of Mr. Pierre Omidyar and John Monahan, Jr., received (FILED UNDER SEAL) (vwar) [Entry date 01/16/03]
1/14/03	251	Declaration by eBay, Inc. [251-1] opposition memorandum by eBay, Inc., [251-1] motion by eBay, Inc. to Enforce Judge Friedman's September 19 and November 22 Orders by eBay, Inc. (FILED UNDER SEAL) (vwar) [Entry date 01/16/03]
1/16/03	252	MOTION with Memorandum in Support by Mercexchange, L.L.C. by Mercexchange, L.L.C. Pursuant to" Rule 37 to Bar Defendants from Presenting Certain Claims, Defenses, and Evidence at Trial (and Supporting Memorandum) (vwar)
		* * * *
1/30/03	264	Declaration of Robert W. McFarland with CD-ROM Re: [264-1] response reply by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 01/31/03]
1/31/03	265	REPLY by eBay, Inc., Half.com, Inc. to response to [253-1] motion by eBay, Inc. to Strike [242-1] declarations of Mr. Woolston, Mr. Buroker, Dr. Weaver ad Dr. Palmer by eBay, Inc., received (FILED UNDER SEAL) (vwar) [Entry date 02/03/03]

DATE	NO.	PROCEEDINGS
2/3/03	266	MEMORANDUM by eBay, Inc. in opposition to [257-1] motion by Mercexchange, L.L.C. for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21,2002 and January 13, 2003, received (vwar) [Entry date 02/04/03]
2/3/03	267	MEMORANDUM by Mercexchange, L.L.C. in opposition to [256-1] cross motion for Entry of Scheduling Order by Half.com, Inc., eBay, Inc., received (vwar) [Entry date 02/04/03]
2/3/03	268	MEMORANDUM by Mercexchange, L.L.C. in opposition to [255-1] motion by Half.com, Inc., eBay, Inc. to Strike Extraneous Statements in MercExchange and ReturnBuy's Proposed Consent Order and Judgment, received (FILED UNDER SEAL) (vwar) [Entry date 02/04/03]
2/6/03	269	REPLY by eBay, Inc., Half.com, Inc. to response to [256-1] cross motion for Entry of Scheduling Order, received (vwar) [Entry date 02/10/03]
2/6/03	270	REPLY by eBay, Inc., Half.com, Inc. to response to [255-1] motion to Strike Extraneous Statements in MercExchange and Return-Buy's Proposed Consent Order and Judgment, received (vwar) [Entry date 02/10/03]
2/6/03	270	Declaration of Robert W. McFarland Re: [270-1] response reply by Half.com, Inc., eBay, Inc. (vwar) [Entry date 02/10/03]

DATE	NO.	PROCEEDINGS
2/7/03	271	REPLY by Mercexchange, L.L.C. to response to [257-1] motion for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003, received (vwar) [Entry date 02/10/03]
2/13/03	272	MOTION by eBay, Inc. for Leave to File Objections to MercExchange's Request to Reconsider the Markman Ruling, Included in MercExchange's Feb. 6, 2003 "Reply") (vwar)
2/13/03	273	OBJECTION by defendant eBay, Inc. to [271-1] response reply by Mercexchange, L.L.C. (vwar)
2/14/03	274	ORDER granting [272-1] motion by eBay, Inc. for Leave to File Objections to MercExchange's Request to Reconsider the Markman Ruling, Included in Merc-Exchange's Feb. 6, 2003 "Reply"), denying [257-1] motion by Mercexchange, L.L.C.for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003, denying [241-1] motion by Mercexchange, L.L.C.for Partial Summary Judgment of Willful Patent Infringement by Defendants eBay, Inc. and Half.Com, Inc. of U.S. Patent No. 5,845,265, granting [231-1] motion by Mercexchange, L.L.C.for Leave to File Summary Judgment Opposition in Excess of 30 Pages and ordering plaintiff's response and defendant's reply FILED, granting in

DATE	NO.	PROCEEDINGS
		part, denying in part [218-1] motion by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265, denying [220-1] motion by eBay, Inc. for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051, entered and filed 2/14/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 2/14/03 [EOD Date: 2/19/03] (vwar) [Entry date 02/19/03]
2/14/03	275	MEMORANDUM by Mercexchange, L.L.C. in opposition to [218-1] motion by eBay, Inc. for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051, received (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]
2/14/03	275	Statement of Controverted Facts (and Attached Exhibits) by plaintiff Mercexchange, L.L.C. [275-1] opposition memorandum (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]
2/14/03	276	MEMORANDUM by Mercexchange, L.L.C. in opposition to [220-1] motion by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 8-11, 13-14, 15-18, and 26-29 of U.S. Patent No. 5,845,265 by Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]

DATE	NO.	PROCEEDINGS
2/14/03	276	Statement of Controverted Facts (and Attached Exhibits) by plaintiff Mercexchange, L.L.C. [276-1] opposition memorandum (FILED UNDER SEAL) (Per order filed 2/14/03) (vwar) [Entry date 02/25/03]
2/26/03	277	OPINION advising that the court does not believe that it is appropriate to strike the agreed-upon language of the proposed Consent Judgment and Order; however the court sees no reason why defendants' suggested sentence cannot be incorporated into the Order; therefore the court will separately enter a Judgment and Order with the addition of defendants' suggested sentence, entered and filed 2/26/03 signed by Judge Jerome B. Friedman) Copies Mailed: 2/27/03 [EOD Date: 2/27/03] (vwar) [Entry date 02/27/03] [Edit date 02/27/03]
2/26/03	278	JUDGMENT and ORDER in favor of MercExchange, LLC against ReturnBuy as outlined by agreement; enjoining ReturnBuy from infringing claims outlined, by agreement; this injunction is subject to the separate License Agreement and Settlement Agreement entered into by and between MercExchange and ReturnBuy; nothing in this Order shall be construed as affecting claims being litigated between eBay, Half.com and MercExchange in this case (see Judgment for specifics), entered and filed 2/26/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 2/27/03 [EOD DATE: 2/27/03] (vwar) [Entry date 02/27/03]

DATE	NO.	PROCEEDINGS
2/27/03	279	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of Post-Markman Motion for Summary Judgment of Noninfringement of Claims 1-9 and 16-41 of U.S. Patent No. 6,085,176, received (Motion not yet filed) (FILED UNDER SEAL) (vwar) [Entry date 02/28/03] [Edit date 02/28/03]
2/28/03	280	POST-MARKMAN MOTION by Half.com, Inc., eBay, Inc. for Summary Judgment of Noninfringement of Claims 1-9 and 16-41 of U.S. Patent No. 6,085,176 (FILED UNDER SEAL) (vwar) [Entry date 03/03/03]
3/3/03	281	EXPEDITED MOTION by Half.com, Inc., eBay, Inc. to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings (FILED UNDER SEAL) (vwar)
3/3/03	282	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of [281-1] motion to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings, received (FILED UNDER SEAL) (vwar)
3/3/03	283	MOTION by Half.com, Inc., eBay, Inc. for Expedited Consideration of eBay and Half.Com's Expedited Motion to Enforce

DATE	NO.	PROCEEDINGS
		Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings (FILED UNDER SEAL) (vwar)
3/3/03	284	MEMORANDUM by eBay, Inc., Half.com, Inc. in support of [283-1] motion for Expedited Consideration of eBay and Half.Com's Expedited Motion to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to and Markman Proceedings, received (FILED UNDER SEAL) (vwar)
3/5/03	285	REPLY by eBay, Inc., Half.com, Inc. to response to [283-1] motion for Expedited Consideration of eBay and Half.Com's Expedited Motion to Enforce Judge Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to and Markman Proceedings by Half.com, Inc., eBay, Inc., received. (vwar)
3/5/03	285	Declaration of Steven Zahn by eBay, Inc., Half.com, Inc. [285-1] response reply by Half.com, Inc., eBay, Inc. (vwar)
3/11/03	286	MEMORANDUM by Mercexchange, L.L.C. in opposition to [281-1] motion by Half.com, Inc., eBay, Inc. to Enforce Judge

DATE	NO.	PROCEEDINGS
		Friedman's February 14, 2003 Order and Objection to Mercexchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings, received. (UNDER SEAL) (ariv)
		* * * *
4/16/03	399	Expedited APPEAL and OBJECTION by defendant eBay, Inc., to Judge Bradberry's Partial Denial of defendant Half.com, Inc. [300-1] motion in limine No. 1 - Motion to Exclude Evidence of Insolvent Return-Buy's "Confession" and License/Settlement Agreement with MercExchange (FILED UNDER SEAL) (vwar)
4/16/03	400	REPLY by eBay, Inc., Half.com, Inc. to response to [344-1] motion by Half.com, Inc., eBay, Inc. in limine No. 16: Motion to Exclude Certain Testimony of Larry W. Evans Regarding Damages, received (FILED UNDER SEAL) (vwar)
4/17/03	401	ORDER denying motion by Half.com, Inc., eBay, Inc. in limine No. 13: Motion to Exclude Richard B. Troxel's Testimony, denying motion by eBay, Inc. in limine No. 12: Motion to Preclude MercExchange from Offering any Evidence of Damages from eBay's Alleged Indirect Infringement of U.S. Patent No. 6,085,176, denying motion by Half.com, Inc., eBay, Inc. in limine No. 11: Motion to Exclude Expert Testimony of Alfred C. Weaver, Ph.D. Regarding "Trans-

DATE	NO.	PROCEEDINGS
		fer of Ownership", denying motion by Half.com, Inc., eBay, Inc. in limine No. 10: Motion to Exclude Expert Testimony of Ophir Frieder, Ph.D. Regarding Infringement, denying motion by defendants in limine No. 9: Motion to Exclude Regarding the New Alleged "Direct" Infringers, denying motion by plaintiff in limine to Evidence or Argument of Non-Infringement Based upon Additional Elements and Improvements of the Accused denying motion by plaintiff in limine to Exclude Evidence or Argument Regarding Non-Infringement or Claim Construction Based Upon Comparisons between Defendants' Accused Systems and the Commercial Embodiments of MercExchange or its Licensees, granting motion plaintiff in limine to Exclude Evidence or Argument Concerning MercExchange's Fee Agreements with Counsel, denying motion by plaintiff in limine to Exclude Evidence or Argument Concerning U.S. Patent No. 6,202,051, granting motion by defendants in limine No. 8: Motion to Exclude of Preliminary Department of Justice Investigation into eBay, granting motion by defendants in limine No. 7: Motion to Exclude any Testimony, Evidence or Argument Regarding Merc Exchange's New "Entire Market Value" Theory, mooting [310-1] motion by defendants in limine No. 6: Motion to Exclude any Testimony, Argument, or Evidence that the '265 Patent Claims Auctions or Any-

DATE	NO.	PROCEEDINGS

thing Beyond Fixed-Price Sales, Contrary to MercExchange's Previous Concessions, granting motion by defendants in limine No. 5: Motion to Exclude False Testimony of Alleged Offer to Purchase the Merc-Exchange Patent Portfolio, denying motion defendants in limine No. 4: Motion to Exclude any Evidence of, or Reliance on, the MercExchange/Goto Settlement, denying motion by defendants in limine No. 3: Motion to Exclude Hearsay Evidence that AutoTrader, An eBay Competitor, "Respects" the MercExchange Patents, denying motion by defendants in limine No. 2: Motion to Exclude Evidence of Merc Exchange's License "Agreements" with Aden Enterprises, Leftbid.com, Navlet.com as Proof of Validity and "Damages", denying motion defendants in No. - Motion to Exclude Evidence of Insolvent Return-Buy's "Confession" and License/Settlement Agreement with MercExchange, granting motion by plaintiff in limine to Exclude Evidence or Argument Regarding Defendants' Undisclosed Invalidity Theories Based Upon Alleged Prior Art References Contained in Defendants' Section 282 Disclosures, denying motion by plaintiff for Protective Order to Preclude Defendants' Late Designation of New Expert Consultants, granting in part, denying in part motion by plaintiff in limine to Exclude Testimony from Defendant eBay's '051 Patent Expert Witnesses, denying motion by

DATE	NO.	PROCEEDINGS
		eBay to Strike [242-1] declarations of Mr. Woolston, Mr. Buroker, Dr. Weaver ad Dr. Palmer, denying motion by eBay Motion to Enforce 9, 2002 Order and Permit Discovery Under Fed. R.Civ. P. 56(F), denying motion by plaintiff Pursuant to Rule 37 to Bar Defendants from Presenting Certain Claims, Defenses, and Evidence at Trial (and Supporting Memorandum), mooting motion by plaintiff to Resume Depositions of Mr. Pierre Omidyar and John Monahan, Jr. (signed by Magistrate Judge James E. Bradberry) Copies Mailed: 4/17/03 [EOD Date: 4/17/03] (vwar)
4/17/03	402	TRANSCRIPT of FINAL PRETRIAL CONFERENCE for dates of 4/10/03 - Vol. I Pages 1-177 before USMJ Bradberry, Susanne V. Ash, OCR (vwar)
4/18/03	403	MOTION with Memorandum in Support by eBay, Inc., Half.com, Inc. by Half.com, Inc., eBay, Inc. for Leave to Bring Laptop Computers and Display Equipment for Use During the April 23, 2003 Trial (vwar)
4/18/03	404	OBJECTION by defendant eBay, Inc., defendant Half.com, Inc. to [0-1] instructions jury by Mercexchange, L.L.C. (vwar)
4/18/03	405	FINAL PRETRIAL CONFERENCE TRANSCRIPT for dates of 4/11/03, Vol. II Pages 178-462, before USMJ Bradberry, Susanne Ash, OCR (vwar)

DATE	NO.	PROCEEDINGS
4/18/03	406	OBJECTION by plaintiff Mercexchange, L.L.C. Regarding Magistrate Judge Bradberry's Partial Denial of MercExchange's Motion in Limine to Exclude Evidence or Argument Concerning U.S. Patent No. 6,202,051 (vwar)
4/18/03	407	MEMORANDUM by Mercexchange, L.L.C. in opposition to [399-1] objection by Half.com, Inc., eBay, Inc., received (FILED UNDER SEAL) (vwar)
4/21/03	408	FINAL PRETRIAL CONFERENCE TRANSCRIPT for dates of 4/12/03; Vol. III Pages 463-637, before *USMJ* Bradberry, Susanne Ash, OCR (vwar)
		* * * *
6/12/03	561	MOTION by Mercexchange, L.L.C. for entry of a permanent injunction order (vwar)
6/12/03	562	MEMORANDUM by Mercexchange, L.L.C. in support of [561-1] motion by Mercexchange, L.L.C. for entry of a permanent injunction order, received. (vwar)
		* * * *
6/12/03	574	MEMORANDUM by Mercexchange, L.L.C. in support of (573-1] motion for Enhanced Damages under 35 U.S.C. *Sec.* 284 and Attorney Fees under 35 U.S.C. Sec. 285, received (FILED UNDER SEAL) (vwar) (Entry date 06/13/03]
		* * * *

DATE	NO.	PROCEEDINGS
6/23/03	585	MEMORANDUM by eBay, Inc., Half.com, Inc. in opposition to [561-1] motion by Mercexchange, L.L.C. for entry of a permanent injunction order, received. (vwar) (Entry date 08/26/031
		* * * *
6/30/03	594	REPLY by Mercexchange, L.L.C. to response to [573-1] motion for Enhanced Damages under 35 U.S.C. Sec. 284 and Attorney Fees under 35 U.S.C. Sec. 285, received. (vwar) [Entry date 07/01/03]
6/30/03	595	REPLY by Mercexchange, L.L.C. to response to [529-1] motion for Judgment as a Matter of Law (vwar) [Entry date 07/01/03]
6/30/03	596	REPLY by Mercexchange, L.L.C. to response to [569-1] motion for Prejudgment and Postjudgment interest, received. (vwar) [Entry date 07/01/03]
6/30/03	597	REPLY by Mercexchange, L.L.C. to response to [563-1] motion to Enforce Judge Friedman's Injunction Order of February 26, 2003 and for Order to Show Cause why Defendant eBay, Inc. should not be held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003 (Exhibit B FILED UNDER SEAL), received. (vwar) [Entry date 07/01/03]
8/7/03	598	ORDER and OPINION entering judgment for the plaintiff in the amount of $29.5 million; consisting of $10.5 million for

DATE	NO.	PROCEEDINGS
		eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent; this judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and post-judgment interest at the standard rate; and denying [565-1] motion by Mercexchange, L.L.C. for Judgment as a Matter of Law, denying [563-1] motion by Mercexchange, L.L.C. to Enforce Judge Friedman's Injunction Order of February 26, 2003 and for Order to Show Cause why Defendant eBay, Inc. should not be held in Contempt for Facilitating Violations of Judge Friedman's Injunction of February 26, 2003, denying [561-1] motion by Mercexchange, L.L.C. for entry of a permanent injunction order, granting in part, denying in part [559-1] motion by Half.com, Inc., eBay, Inc. to Strike Testimony of Plaintiff's Damages Experts, granting in part, denying in part [559-2] motion by Half.com, Inc., eBay, Inc. for New Trial, granting in part, denying in part (559-3] motion by Inc., eBay, Inc. for Judgment as a Matter of Law, denying [557-1] motion by Half.com, Inc., eBay, Inc. for Judgment a Matter of Law, denying [557-2] motion by Half.com, Inc., eBay, Inc. for New Trial on the '265 Patent, denying motion by Half.com, Inc. for Judgment as a Matter of Law, denying [555-

DATE	NO.	PROCEEDINGS
		2] motion by Half.com,. Inc. for New Trial on the '176 Patent, denying [573-1] motion by Mercexchange, L.L.C. for Enhanced Damages under 35 U.S.C. Sec. 284 and Attorney Fees under 35 U.S.C. Sec. 285, granting [569-1] motion by Mercexchange, L.L.C. for Prejudgment and Postjudgment interest, granting in part, denying in part [567-1] motion by Mercexchange, L.L.C. for entry of final judgment, deferring plaintiff's motion for Post-Verdict and Postjudgment Accounting pending appeal, entered and filed 8/6/03 (signed by Judge Jerome B. Friedman) Copies Mailed: 8/6/03 [SOD Date: 8/7/03] (vwar)
8/7/03	599	JUDGMENT by jury verdict and on decision by court that judgment is entered for the plaintiff in the amount of $29.5 million; this consists of $10.5 million for eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent; this judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and post-judgment interest at the standard rate; and that Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 patent is DENIED; eBay and Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '265

DATE	NO.	PROCEEDINGS
		Patent is DENIED; eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiff's Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law is DENIED in part and GRANTED in part; the plaintiff's Motion for Entry of a Permanent Injunction Order is DENIED; the plaintiff's Motion to Enforce Judge Friedman's Injunction Order of February 26, 2003, and for Order to Show why defendant e-Bay, Inc. should not be held in Contempt for facilitating Renewed Motion for Judgment as a Matter of Law is DENIED; the plaintiff's Motion for Prejudgment and Postjudgment interest is GRANTED, with the exception of the interest rate used; the plaintiff's Motion for Post-Verdict and Postjudgment Account is DEFERRED pending appeal; the plaintiff's Motion for Enhanced Damages under 35 USC Sec. 284 and Attorney Fees under 35 USC Sec. 285 is DENIED, entered by the Clerk 8/6/03, filed 8/7/03, o.b., Copies Mailed: 8/7/03 [EOD DATE: 8/7/03] (vwar)
8/7/03	—	Case closed (vwar)
8/7/03	—	Permanent Record (vwar)
8/19/03	600	ORDER stipulating and agreeing that the judgment against eBay and against Half.com should be stayed pending appeal without a supersedeas bond and that the requirement that eBay and Half.com post and obtain approval of a supersedeas bond pending appeal and any cost bond are

DATE	NO.	PROCEEDINGS
		waived; entered 8/18/03, filed 8/19/03 (signed by Judge Jerome B. Friedman Copies Mailed: 8/19/03 [EOD Date: 8/19/03] (vwar)
8/20/03	601	NOTICE OF APPEAL by eBay, Inc., Half.com, Inc.. FILING FEE $ 105.00 RECEIPT # 40277 (jcow)
8/20/03	—	Copy of Notice of Appeal, Order and Opinion, Judgment and docket sheet to USCA for the Federal Circuit: copy of notice of appeal to defendants/appellants re: [601-1] appeal by Half.com, Inc., eBay, Inc.; copy of notice of appeal to counsel of record (jcow)
9/2/03	602	Copy of transcript purchase order for hearing on 11/20/01 and 4/3/02 (jcow) [Entry date 09/03/03]
9/2/03	603	Copy of transcript purchase order for hearing on 7/1/02 (jcow) [Entry date 09/03/03]
9/3/03	604	NOTICE OF APPEAL by Mercexchange, L.L.C.. FILING FEE $ 150.00 (jcow)

* * * *

U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT

03-1600, 03-1616

MERCEXCHANGE, L.L.C.,
Appellant,

v.

EBAY, INC., *et al.*,
Defendant-Appellee.

RELEVANT DOCKET ENTRIES

DATE	PROCEEDINGS	
8/25/ 203	Notice of Appeal Received:	[03-1600]
9/8/2003	Notice of Appeal Received:	[03-1616]
9/8/2003	Notice of Appeal Received:	[03-1600]
9/10/2003	Notice of Appeal Received:	[03-1616]

* * * *

1/7/2004 CORRECTED BRIEF OF APPELLANTS BY eBAY, INC. and HALF.COM, INC. (APPELLANTS). SERVED BY MAIL ON 1/6/2004. FILED ON 1/7/2004. (NON-CONFIDENTIAL)

* * * *

4/21/2004 JOINT REPLY/OPPOSITION BRIEF FOR DEFENDANTS-APPELLANTS EBAY INC. AND HALF.COM, INC. BY EBAY, INC. AND HALF.COM, INC. (APPELLANTS). SERVED BY MAIL ON 4/21/2004. FILED ON 4/21/2004. (NON-CONFIDENTIAL)

DATE	PROCEEDINGS
	* * * *
3/16/2005	Disposition: AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED; by PANEL
3/16/2005	Mandated on
	* * * *
4/26/2005	ACTION: Entry 43: [REQUEST FOR JUDICIAL NOTICE OF PTO OFFICE ACTION IN EX PARTE REEXAMINATION OF US PATENT NO. 5,845,265] DENIED.
	* * * *
5/11/2005	ACTION: Entry 46: [MOTION TO STAY COURT'S MANDATE PENDING FILING A PETITION FOR WRIT OF CERTIORARI IN THE SUPREME COURT] GRANTED.
	* * * *
1/19/2006	ACTION: [ORDER CONTINUING STAY OF MANDATE UNTIL THE SUPREME COURT'S FINAL DISPOSITION.]

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

JURY TRIAL DEMANDED

FIRST AMENDED COMPLAINT FOR PATENT INFRINGEMENT

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Scott L. Robertson
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Attorneys for the Plaintiff
MercExchange, L.L.C.

FIRST AMENDED COMPLAINT

Plaintiff, MercExchange, L.L.C. ("MercExhange"), hereby complains and alleges against defendants eBay, Inc. ("eBay"), Half.com, Inc. ("Half.com"), and ReturnBuy, Inc., ("ReturnBuy") (collectively, "the defendants") as follows:

Statement of the Parties, Jurisdiction, and Venue

1. This is an action for patent infringement arising under the patent laws of the United States, 35 U.S.C. §§ 271, *et seq.* This Court has exclusive jurisdiction over the subject matter of this action under 28 U.S.C. §§ 1331 and 1338(a) for infringement of United States Patent No. 6,202,051 ("the '051 Patent") entitled "Facilitating Internet Commerce Through Internetworked Auctions" (Exhibit A, attached hereto), United States Patent No. 6,085,176 ("the '176 Patent") entitled "Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items" (Exhibit B, attached hereto), and United States Patent No. 5,845,265 ("the '265 Patent") entitled "Consignment Nodes" (Exhibit C, attached hereto) (collectively, "the patents in suit").

2. Plaintiff MercExchange is a Virginia limited liability company, with its principal place of business at 9124 Poto-

mac Ridge Road, Great Falls, Virginia, 22066, in the judicial district of the Eastern District of Virginia ("the Eastern District of Virginia").

3. The inventor and assignor of the patents in suit, and the Managing Member of MercExchange, Thomas G. Woolston, is a resident of Great Falls, Virginia, in the Eastern District of Virginia.

4. This Court previously presided over another patent infringement action brought by MercExchange involving one of the patents in suit, the '176 Patent, in a case styled MercExchange GoTo.com, Civ. Action No. 2:00cv826, Eastern District of Virginia, Norfolk Division.

5. Defendant eBay is a Delaware corporation with its principal place of business at 2145 Hamilton Avenue, San Jose, California.

6. Defendant Half.com is a Pennsylvania corporation with its principal place of business at 500 South Gravers Road, Plymouth Meeting, Pennsylvania.

7. Upon information and belief, defendant ReturnBuy is a Delaware corporation. ReturnBuy maintains its headquarters and its principal place of business at 21641 Beaumeade Circle, Suite 319, Ashburn, Virginia, in the Eastern District of Virginia.

8. The defendants regularly transact business in this judicial district and division by, among other things, offering their services via the Internet to customers, advertisers, business affiliates and partners located in this judicial district and division. In addition, each of the defendants have committed acts of infringement, contributory infringement, and/or inducement of infringement, of one or more of the claims of one or more of the patents in suit in this judicial district and division.

9. Venue is proper in this district and division pursuant to 28 U.S.C. § 1400(b) and 28 U.S.C. §§ 1391(b) and (c), as each of the defendants resides in and is subject to personal jurisdiction in this judicial district and division, and the infringing activity has occurred and continues to occur in this district and division.

10. Further, venue is convenient in this district because, among other things, this case relates to *MercExchange v. GoTo.com, Inc.*, Civ. Action No. 2:00cv826, which was previously heard in this Court. Both cases relate to patent infringement claims by MercExchange under the '176 patent, and the other patents in suit in this case are related to the '176 patent.

The Defendants' Substantial Contacts With The Commonwealth Of Virginia eBay's Contacts With Virginia

11. eBay owns and operates a web site at the uniform resource locator ("URL") www.eBay.com. The web site provides methods and apparatuses which, inter alia, facilitate Internet auctions, and which are accused in this action of infringing one or more of the claims of one or more of the patents in suit. Through the use of its web site and related advertising and promotion, eBay operates an online forum through which buyers and sellers of items can participate in Internet auctions. Many of these buyers and sellers, as well as eBay's other customers, advertisers, and affiliates, are located in the Eastern District of Virginia.

12. eBay's web site is an interactive web site in that eBay intends for persons located in the Eastern District of Virginia and elsewhere to access the web site in order to conduct Internet auctions, and to transact business with eBay, its advertisers and business affiliates, and other users of the Internet, to search for goods and services being auctioned or sold, and ultimately to consummate transactions involving those goods and services. eBay states that it is "the leading online

marketplace for the sale of goods and services by a diverse community of individuals and businesses. Today, the eBay community includes 29.7 million registered users, and is the most popular shopping site on the Internet when measured by total user minutes according to Media Metrix." Exhibit D.

13. eBay actively promotes and advertises its web site and associated auction services in order to encourage their use by consumers, advertisers, and buyers and sellers of goods and services located in the Eastern District of Virginia, as well as other jurisdictions. eBay states that its "mission is to help practically anyone trade practically anything on earth." *Id.* Through its accused methods and apparatuses, eBay enables trade on a local, national and international basis. *Id*

14. eBay's methods and apparatuses are in fact used in the Eastern District of Virginia by buyers ,and sellers of goods that are bought and sold through Internet auctions and sales.

15. eBay's web site enables a customer (including customers located in the Eastern District of Virginia) to access the site and use its methods and apparatuses to search literally millions of items listed for sale or auction eBay states that "[o]n any given day, there are millions of items listed on eBay across thousands of categories." *Id.*

16. Further, eBay purposefully and persistently engages in business in the Eastern District of Virginia. eBay operates as a web host and promoter for numerous Virginia-based companies through, among other things, its eBay Stores program. eBay states that its eBay Stores program "expands the marketplace for sellers by allowing them to create customized shopping destinations to merchandise their items on eBay." *Id.*

17. eBay provides its eBay Stores program for such Eastern District of Virginia-based companies as Marie-Therese Wood Antique Prints, located in Alexandria, Virginia. Copies of printed pages from eBay's web site for this seller of

goods are attached as Exhibit E hereto. In addition, defendant ReturnBuy, a company whose headquarters are located in the Eastern District of Virginia in Ashburn, Virginia, has an "eBay Store" at which it lists for auction thousands of items. Exhibit F.

18. Through eBay, users of the Internet are able to search for, identify and purchase items being auctioned by such merchants from the Eastern District of Virginia, initiate communications with these merchants to their place of business in the Eastern District of Virginia, and provide payment information to these merchants. eBay charges these merchants a commission for the items being auctioned or sold.

19. In addition, individual buyers and sellers located in the Eastern District of Virginia use eBay's auction services, methods and apparatuses, which are alleged to infringe one or more claims of one or more of the patents in suit. For example, a seller of photographs, located in Northern Virginia in the Eastern District of Virginia, has listed for auction or sale numerous different items at the eBay web site. The eBay site operates such that a consumer searching for auctions of photographs at www.eBay.com is directed to this auction seller located in the Eastern District of Virginia. (*See* Ex. G). Likewise, a Herndon, Virginia resident has listed for auction an autographed Redskins jersey. Exhibit H.

20. eBay further directs its activities toward the Eastern District of Virginia through its "Go Local" or "eBay Local Trading" program. eBay promotes some sixty different of these "local web sites," two of which are "Richmond" and "Norfolk/Virginia Beach," both of which are located in the Eastern District of Virginia. *See* Exhibit I. eBay also provides a "local web site" for the Baltimore/Washington, D.C. area, which directs consumers to goods and services being auctioned by sellers in Northern Virginia, Washington, D.C., and suburban Maryland and Baltimore. Exhibit J. Through these localized eBay sites, prospective buyers of goods presented

for sale or auction through eBay may focus their searches for goods for sale or auction within these local regions. eBay states that "[t]hese localized eBay sites allow users to easily find items located near them and browse through items of local interest. eBay's local sites deliver a distinctive regional flavor, while giving users the convenience to shop for more difficult-to-ship items such as automobiles, furniture or appliances." Exhibit D.

21. Upon launching the local web site for eBay's community in Norfolk and Virginia Beach on or about November 10, 1999, eBay issued a press release stating, *inter alia*, "[b]ecause eBay's new Norfolk/Virginia Beach site connects local buyers and sellers, it also gives holiday shoppers the opportunity to pick up that last minute gift themselves—rather than wait on shipment . . . [w]ith the new Norfolk/Virginia Beach web site, eBay community members can easily find items located near them and browse through items of local interest, such as collectibles from Colonial Williamsburg, tobacco memorabilia and rare sailing and fishing merchandise. The site also provides a more convenient venue for trading items that are difficult to ship long distances, due to either their size or fragile nature. The Norfolk/Virginia Beach site is completely integrated into eBay's worldwide listings, so sellers can list locally in the knowledge everyone on eBay can see the item." Exhibit K. eBay's press release went on to provide specific examples of goods for sale from sellers in the Norfolk/Virginia Beach area. *Id.*

22. Similarly, when eBay launched its local web site for the Baltimore/Washington, D.C. area on November 10, 1999, it issued a similar press release stating, "[w]ith the new Baltimore /Washington, D.C. web site, eBay community members can easily find items located near them and browse through items of local interest, such as memorabilia from popular regional sports teams like the Ravens and Redskins, presiden

tial and political collectibles, and antique postcards celebrating Baltimore's proud industrial heritage." Exhibit K.

23. There have been at least thousands of buyers and sellers of goods located in the Eastern District of Virginia that have accessed and/or used the www.ebay.com web site, and its associated methods and apparatuses that are alleged to infringe one or more claims of one or more of the patents in suit.

24. Moreover, eBay conducts substantial and continuous business activities in this district and division by contracting with business partners such as America Online ("AOL"), a company based in Dulles, Virginia, in the Eastern District of Virginia. An August 14, 2001, press release from eBay stated that eBay and AOL have "broadened [their] partnership," and extended the two companies' "longtime successful relationship." Exhibit L. The press release announced a new three-year marketing alliance between eBay and AOL, and stated, in pertinent part, that "[t]he companies, which have had a successful relationship since 1997, will collaborate closely on developing marketing solutions for eBay across a range of AOL Time Warner's online, print and television properties." *Id.* The release also stated that AOL will "continue to serve as eBay's exclusive third-party advertising sales force, representing a significant portion of eBay's standard online advertising inventory." *Id.*

25. Accordingly, eBay has purposefully availed itself of the privilege of conducting business in the Commonwealth of Virginia. Among other things, eBay's services emphasize the lack of geographic boundaries to commerce conducted via www.ebay.com. Thus, eBay has derived and will continue to derive substantial revenues from its infringing business activities in the Eastern District of Virginia as described above.

Half.com's Contacts With Virginia

26. Upon information and belief, defendant Half.com is a wholly-owned subsidiary of eBay. Both eBay and Half.com advertise and promote Half.com as being "an eBay company," and persons searching for items to purchase at eBay's site are encouraged to search listings at Half.com, and vice versa. Half.com owns and operates a web site at the uniform resource locator ("URL") www.half.com. The web site provides methods and apparatuses that are accused in this action of infringing one or more claims of one or more of the patents in suit and which, *inter alia*, facilitate Internet sales of certain types of goods (*e.g.*, books, music compact discs, DVD's and videos, and video games), at a set price established by the seller. Through the use of its web site and related advertising and promotion, Half.com operates an online forum through which buyers and sellers of items can participate in Internet Sales of what are primarily second hand goods. Many of these buyers and sellers, as well as Half.com's other customers, advertisers, and affiliates, are located in the Eastern District of Virginia.

27. Half.com's web site is an interactive web site in that Half.com intends for persons located in the Eastern District of Virginia and elsewhere to access the web site in order to transact business with Half.com, its advertisers and business affiliates, and other users of the Internet, to search for goods being sold, and ultimately to consummate transactions involving those goods.

28. Half.com actively promotes and advertises its web site and associated services in order to encourage their use by consumers, advertisers, and buyers and sellers of goods, many of which are located in the Eastern District of Virginia, as well as other jurisdictions.

29. Half.com's methods, apparatuses and services are in fact used in the Eastern District of Virginia by buyers and

sellers/of goods bought and sold through the Half.com web site.

30. Half.com's web site enables a customer (including customers located in the Eastern District of Virginia) to access the site and use its methods and apparatuses to search thousands of listings for various goods for sale at set prices. Further, Half.com purposefully and persistently engages in business in the Eastern District of Virginia. Numerous persons located in the Eastern District of Virginia offer their goods for sale through Half.com.

31. Through Half.com, users of the Internet are able to search for, identify and purchase items being sold by sellers residing in the Eastern District of Virginia and provide payment information in order to consummate sales with these sellers.

32. Half.com also advertises through the eBay Norfolk/Virginia Beach and Baltimore/Washington, on, D.C. local web sites, in order to attract prospective buyers located in the Eastern District of Virginia to the Half.com web site. Exhibit M.

33. Upon information and belief, there have been at least thousands of buyers and sellers of goods located in the Eastern District of Virginia that have accessed and/or used the www.half.com web site, and its associated methods and apparatuses that are alleged to infringe one or more claims of one or more of the patents in suit.

34. Accordingly, Half.com has purposefully availed itself of the privilege of conducting business in the Commonwealth of Virginia. Among other things, Half.com's services emphasize the lack of geographic boundaries to commerce conducted via www.half.com. Thus, Half.com has derived and will continue to derive substantial revenues from the business activities in the Eastern District of Virginia as described above.

ReturnBuy.com's Contacts With Virginia

35. ReturnBuy maintains its corporate headquarters in Ashburn, Virginia, in the Eastern District of Virginia. ReturnBuy also maintains a processing center in West Columbia, South Carolina, and information technology offices in Charlottesville, Virginia.

36. ReturnBuy utilizes methods and apparatuses that are alleged to infringe one or more claims of one of the patents in suit in order to sell goods to consumers. ReturnBuy processes and individually sells products that have been consigned to them by retailers, and it uses eBay's accused methods and apparatuses as a channel for selling the goods to consumers. Consumers interested in purchasing such goods from ReturnBuy are directed from the ReturnBuy web site to the eBay web site, where over one thousand different items for sale by ReturnBuy are displayed in an eBay listing. Exhibit N. Tens of thousands of such items have been-auctioned or sold through the eBay web site. *Id.* ReturnBuy stated in its press released of April 9, 2001, that its "resale of returned products through eBay, for example, has enabled ReturnBuy to recoup three to five times more value for its clients than through traditional liquidation." Exhibit O.

37. On May 24, 2001, ReturnBuy announced that it had entered into a strategic alliance with eBay "to expand the quantity of merchandise available through the online trading community," and that it had "completed the integration with eBay's Application Program Interface (API) that allow[ed] the two companies to instantly exchange data through a fully secure and private communication hotline." Exhibit P. The press release further stated that "eBay selected ReturnBuy as one of its select purveyors of consumer electronics, computers, toys and sporting goods." *Id.*

38. ReturnBuy's web site is an interactive web site in that ReturnBuy intends for persons located in the Eastern District

of Virginia and elsewhere to access the web site and/or ReturnBuy's eBay listings in order to transact business with ReturnBuy, its advertisers and business affiliates, to search for goods being sold, and ultimately to consummate transactions involving those goods.

39. ReturnBuy actively promotes and advertises its web site and associated services in order to encourage their use by consumers, advertisers, and buyers and sellers of goods, all of which are located in the Eastern District of Virginia, as well as other jurisdictions.

40. ReturnBuy's methods, apparatuses and services are in fact used in the Eastern District of Virginia by buyers and sellers of goods bought and sold through the ReturnBuy and the eBay web sites.

41. ReturnBuy's web site enables a customer (including customers located in the Eastern District of Virginia) to access the site and use either ReturnBuy's or eBay's methods and apparatuses to search thousands of listings for various goods for sale or auction.

42. eBay has also invested millions of dollars in defendant ReturnBuy. A ReturnBuy press release dated May 24, 2001, stated that "eBay participated in ReturnBuy's $15 million second-round funding that was completed mid-March." Exhibit P. Another ReturnBuy press release dated April 9, 2001 stated, in pertinent part, "[s]everal prominent companies made strategic minority investments including eBay." Exhibit O.

43. Upon information and belief, there have been at least hundreds of buyers and sellers of goods located in the Eastern District of Virginia that have accessed and/or used the www.returnbuy.com web site, or ReturnBuy's eBay listings, and the associated methods and apparatuses that are alleged to infringe one or more claims of one or more of the patents in suit.

44. Accordingly, ReturnBuy has purposefully availed itself of the privilege of conducting business in the Commonwealth of Virginia. Among other things, and in addition to the presence of its headquarters in the Eastern. District of Virginia, ReturnBuy's services emphasize the lack of geographic boundaries to commerce conducted via www.returnbuy.com. Thus, ReturnBuy has derived and will continue to derive substantial revenues from its business activities in the Eastern District of Virginia as described above.

45. Thus, each of three defendants have actively engaged in business, and continue to engage in business, in the Eastern District of Virginia. Each of the three defendants have obtained substantial revenues through their ongoing business activities in the Eastern District of Virginia, and have purposefully availed themselves of the privileges of conducting business in the Eastern District of Virginia. Moreover, the methods, systems, and apparatuses used by each of the three defendants to conduct business in the Eastern District of Virginia are alleged to infringe one or more of the claims of one or more of the patents in suit, as set forth infra. Accordingly, jurisdiction is proper, and venue is proper, appropriate, and convenient in this forum.

COUNT ONE—INFRINGEMENT OF THE '051 PATENT

(eBay)

46. MercExchange incorporates by reference its allegations in Paragraphs 1-45 as if fully restated in this paragraph.

47. On March 13, 2001, the '051 Patent was duly and legally issued to the inventor, Thomas G. Woolston, for an invention pertaining inter alia, to a method and apparatus for facilitating internet commerce through intemetworked auctions.

48. Plaintiff MercExchange is the assignee of and the owner of all right, title and interest to the '051 Patent.

MercExchange has the legal right to enforce the patent, sue for infringement, and seek equitable relief and damages.

49. Defendant eBay has been and continues infringing one or more of the claims of the '051 Patent through at least the act of making, using, and/or selling Internet methods and apparatuses incorporating the patented inventions, and will continue to do so unless enjoined by this Court. eBay's wrongful conduct has caused MercExchange to suffer irreparable harm resulting from the loss of its lawful patent rights to exclude others from making, using, selling, offering to sell and importing the patented inventions.

50. MercExchange is entitled to recover damages adequate to compensate for the infringement.

COUNT TWO—INFRINGEMENT OF THE '176 PATENT

(eBay and Half.com)

51. MercExchange incorporates by reference its allegations in Paragraphs 1-50 as if fully restated in this paragraph.

52. On July 4, 2000, the '176 Patent was duly and legally issued to the inventor, Thomas G. Woolston, for an invention pertaining, *inter alia*, to a method and apparatus for using search agents to search a plurality of markets for items.

53. Plaintiff MercExchange is the assignee of and the owner of all right, title and interest to the '176 Patent. MercExchange has the legal right to enforce the patent, sue for infringement, and seek equitable relief and damages.

54. Defendants eBay and Half.com have been either directly infringing, contributing to infringement, and/or inducing others to infringe one or more of the claims of the '176 Patent, and continue to do so, through at least the act of making, using, and/or selling Internet methods and apparatuses incorporating the patented inventions, or inducing or contributing to such making, using, and/or selling of the patented inventions by others, and will continue to do so unless en-

joined by this Court. EBay and Half.com's wrongful conduct has caused MercExchange to suffer irreparable harm resulting from the loss of its lawful patent rights to exclude others from making, using, selling, offering to sell and importing the patented inventions.

55. MercExchange is entitled to recover damages adequate to compensate for the infringement.

COUNT THREE—INFRINGEMENT OF THE '265 PATENT

(All Defendants)

56. MercExchange incorporates by reference its allegations in Paragraphs 1-55 as if fully restated in this paragraph.

57. On December 1, 1998, the '265 Patent was duly and legally issued to the inventor, Thomas G. Woolston, for an invention pertaining to, inter alia, a method and apparatus for creating a computerized market for goods for sale or auction by use of a plurality of low cost posting terminals.

58. Plaintiff MercExchange is the assignee of and the owner of all right, title and interest to the '265 Patent. MercExchange has the legal right to enforce the patent, sue for infringement, and seek equitable relief and damages.

59. Defendants have been either directly infringing, contributing to infringement and/or inducing others to infringe one or more of the claims of the '265 Patent through at least the act of making, using, and/or selling Internet methods and apparatuses incorporating the patented inventions, or inducing or contributing to such making, using, and/or selling of the patented inventions by others, and will continue to do so unless enjoined by this Court. Defendants' wrongful conduct has caused MercExchange to suffer irreparable harm resulting from the loss of its lawful patent rights to exclude others from making, using, selling, offering to sell and importing the patented inventions.

60. MercExchange is entitled to recover damages adequate to compensate for the infringement.

COUNT FOUR—WILLFUL PATENT INFRINGEMENT

(eBay, Half.com, and ReturnBuy)

61. MercExchange incorporates by reference its allegations in Paragraphs 1-60 as if fully restated in this paragraph.

62. MercExchange previously informed eBay of the issued '265 Patent and the then-pending applications resulting in the '176 and '051 Patents, and the relevance of these patents and patent applications to eBay's ongoing business operations. eBay was made aware of these facts no later than June, 2000. The '265 Patent also was cited as a relevant reference in eBay's own Patent Cooperation Treaty ("PCT") International Patent No. WO 00/34899, International Application No. PCT/US99/29312, entitled "Integrated Auction For Remote Online Bidders And Live Participants At An Auction Site," thus further demonstrating, eBay's prior knowledge of the '265 Patent. eBay either is aware, or in the exercise of its duty to avoid infringing the intellectual property rights of others should be aware, that the '176 Patent and the '051 Patent have issued. Notwithstanding eBay's receipt of notice of the patents in suit, eBay continues its infringement. eBay's infringement has been willful, deliberate and with knowledge of MercExchange's rights under the patents in suit, and unless eBay is enjoined by this Court, such acts of willful infringement by eBay will continue. Therefore, MercExchange is without adequate remedy at law.

63. Upon information and belief, Half.com also had prior notice of the '265 Patent and/or the '176 Patent, either by means of Half.com's corporate affiliation with eBay or otherwise.

64. Notwithstanding service of the Complaint in this action upon ReturnBuy, ReturnBuy continues its infringement

of the '265 Patent. ReturnBuy's continued infringement of the '265 Patent after receiving notice of MercExchange's patent rights has been willful, and will continue to constitute willful infringement unless enjoined by this Court.

65. MercExchange is entitled to recover damages adequate to compensate for the infringement of the patents in suit, as well as additional damages for willful infringement.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff MercExchange prays for judgment against each of the Defendants, granting MercExchange the following relief:

A. That this Court adjudge and decree that the '051 Patent is valid and enforceable against eBay, that the '176 Patent is valid and enforceable against eBay and Half.com, and that the '265 Patent is valid and enforceable against all Defendants;

B. That this Court adjudge and decree that eBay has infringed the '051 Patent, that eBay and Half.com have infringed the '176 Patent, and that all Defendants have infringed the '265 Patent;

C. That this Court enter judgment that all Defendants knowingly and willfully engaged in such infringement;

D. That this Court permanently enjoin Defendants, their affiliates, agents, servants, employees, attorneys, representatives, successors and assigns, and all others in active concert or participation with them from infringing the '051 Patent, the '176 Patent, and the '265 Patent;

E. That this Court order an accounting to determine the damages to be awarded to MercExchange as a result of Defendants' infringement;

F. That this Court order an award to .MercExchange of such damages as it shall prove at trial against Defendants that are adequate to compensate MercExchange for Defendants'

infringement, said damages to be no less than a reasonable royalty;

G. That this Court order an award to MercExchange of up to three times the amount of compensatory damages because of defendants' willful infringement;

H. That this Court render a finding that this case is "exceptional" and award to MercExchange its costs and reasonable attorneys' fees, as provided by 35 U.S.C. § 285; and

I. That this Court grant such other and further relief as the Court may deem proper and just.

JURY DEMAND

Plaintiff MercExchange demands a trial by jury of all matters to which it is entitled to trial by jury, pursuant to Fed. R. Civ. P. 38.

Dated: November 21, 2001

Respectfully submitted,

MERCEXCHANGE, L.L.C.,

BY: /s/ [Illegible]

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Attorneys for the Plaintiff
MercExchange, L.L.C.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

No. 2:01CV736

MERCEXCHANGE, L.L.C.,

Plaintiff,

vs

EBAY et al.,

Defendants.

Plymouth Meeting, Pennsylvania
Thursday, May 30, 2002

Excerpted Deposition of

MARGARET CUSHING WHITMAN a witness, called for examination by counsel for Plaintiff pursuant to notice and agreement of counsel, beginning at approximately 9:38 a.m., at the law offices of Fenwick & West, 2 Palo Alto Square, Palo Alto, California, before Kathleen A. Wilkins of Beta Reporting & Videography Services, notary public in and for the State of California, when were present on behalf of the respective parties:

* * * *

* * * *

[65] Q Is the acquisition of Half.com part of a strategy to increase the mix of fixed price sales through eBay?

A It was another marketplace that was largely a person-to-person and a small business marketplace that sold only in the fixed price format. Whose users sold only in the fixed price format.

Q You may have said this, and I apologize if I have asked this before, but when did eBay acquire Half.com?

A I think the deal closed in May or June of 2000.

Q In November of 2000, did eBay institute the Buy It Now feature?

A November of 2000, yes. I think that's correct.

Q Explain what that feature is.

[66] A Buy It Now?

Q Yes. item to put a price on their listing which they would sell that good to a buyer who wanted to buy it at that particular price right now.

Q In 2001, did eBay begin to or initiate having eBay Stores?

A Yes.

Q Tell me about that, please. What is that?

A EBay offers the opportunity for sellers to have a store-front on the eBay website where they can have their listings that they have on eBay put into their store as well as be able to list other items in a fixed price format that appear only in their store.

Q Are you familiar with the phrase "Billpoint"?

A Yes.

[67] Q What is that?

A Billpoint is our payment subsidiary.

Q Tell me how that works. How does that subsidiary assist eBay, if it does?

A It assists our sellers. Billpoint allows sellers to accept credit cards. They effectively act as a merchant processor for sellers to be able to accept credit cards.

Q So if you are an individual and you're selling on eBay, with Billpoint you can accept credit cards from buyers who want to buy your items.

Q Has the name Billpoint now

* * * *

[114] A We have a philosophy which was in place from the beginning that will sound I think somewhat naive to perhaps lawyers, but we actually believe that people are basically good, that 99.9 percent of people want to do the right thing.

Q Right.

A And so what you try to do is to make the smallest number of rules that you can and get out of the way.

[115] Q Right

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA

No. 2:01CV736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., *et al.*,
Defendants.

Las Vegas, Nevada
Tuesday, June 4, 2002

Deposition of

PIERRE OMIDYAR

a witness, called for examination by counsel for Plaintiff pursuant to notice and agreement of counsel, beginning at approximately 10:14 a.m., at the offices of All-American Court Reporters, 633 South Fourth Street, Las Vegas, Nevada, before Cameo L. Kayser, notary public in and for the State of Nevada, when were present on behalf of the respective parties:

* * * *

[10] back and look at the calendar to give you a precise answer. We have one scheduled for tomorrow. I guess that would be the second meeting.

Q Where is the board meeting going to take place tomorrow?

A Tomorrow it is in San Jose.

Q Will you be attending?

A Yes.

Q Do you maintain your office in San Jose?

A I do not maintain an office for myself in San Jose.

Q Do you maintain an office as your role as chairman of eBay in Las Vegas?

A Not in my role as chairman. I—have—since my operational responsibilities—since I have no operational responsibilities with the company as president, I have an office here in Henderson outside of Las Vegas for lack of personal and non-eBay-related activities.

* * * *

[37] MR. RANDALL: Well, if he did it at the direction of counsel, it is privileged.

All I'm saying is in answering the question, do not reveal any privileged communications with counsel.

THE WITNESS: Right. So once I received this document, the first thing I did was I asked counsel what should I do about it and everything that happened after that was at counsel's direction, so I mean—I don't know.

BY MR. ROBERTSON:

Q Let me ask you this. Physically, where did you search for the responsive documents?

MR. RANDALL: Objection. Assumes facts not in evidence. Also, I will again caution you not to reveal any privileged communications.

THE WITNESS: Uh-huh. The small quantity of eBay-related documents that are [38] not at eBay, in other words, that are in my office, I asked my assistant to go through those files and retrieve anything that was eBay related.

BY MR. ROBERTSON:

Q What files do you have in your office?

A I have files of—as far as—you're talking about—you're asking about Ebay-related files?

Q I'm talking about the documents responsive to the subpoena.

A I'm not certain if I had any documents that might have been responsive to the subpoena because I'm not—because whether something is responsive or not seems more of a technical legal matter, so my goal was to produce anything that might be potentially responsive to our legal team and let them figure out what the deal is.

Q If someone writes you a letter and mails it to you as chairman of eBay, is that

* * * *

[45] duties for me because I have no operational responsibilities.

But in San Jose, I have an assistant there. I also have an assistant that works for me directly that assists me with all of my affairs, including non-eBay affairs, so those are the two that I'm thinking of.

Q Are those two individuals who conducted the search on your behalf?

MR. RANDALL: Objection. Calls for speculation.

THE WITNESS: That is true, actually. I know it is an assumption. My answer would be that I would assume that at least those two participated.

BY MR. ROBERTSON:

Q How do you know that you complied with the subpoena if you assumed that people were collecting responsive documents?

A You know, I directed folks to produce anything that was related to eBay to [46] the legal team, for them to—for them to work through and figure out what was responsive or not.

All of my documents were made available and there you go.

Q Do you have a laptop PC?

A Yes.

Q Do you have a desktop PC?

A Yes.

Q Do you have more than one laptop PC that you use?

A Yes.

Q Do you know whether or not you made all of those available to determine whether or not there were any responsive documents in the electronic format?

A All of those meaning laptops or the desktops?

Q Any personal computer that you used that might contain responsive documents.

A Right. I actually—the laptops [47] that I use and the desktop that I use in Henderson I searched through to see if there was anything that was related to eBay that, you know, ought to be produced.

Typically, I actually do not have that much eBay-related information on my hard disk these days because as chairman of the board I don't actually—because I'm not involved operationally, I do not have a lot of data or a lot of documents generally.

Q Did you communicate with eBay personnel by e-mail through your laptop?

A Through my laptop—yes. Through a Web interface into the e-mail system, which is the eBay e-mail system.

Q So you communicated over the Internet through the eBay e-mail system of eBay personnel?

A That is correct.

Q Did you search your e-mail files in your laptop for those e-mails?

A To my knowledge, because the eBay

* * * *

[69] and I want to make sure that you understand that. We have gone through his documents a number of times, produced anything that could possibly be relevant, including documents that are not even responsive. We produced them to you.

So, there, I want to make sure that you understand it.

MR. ROBERTSON: I do not want a debate here today when Mr. Omidyar's time is involved.

But you produced no documents in response to the subpoena after the order was entered. You produced 900 documents before we went down to the hearing on May 13th.

On May 17th, the judge issued an order telling you that you were to produce all documents responsive to the subpoena, and we received nothing since then.

Subsequently, you have written me letters indicating that, in fact, the witness has approximately ten e-mails from That is your acknowledgment of the

* * * *

[254] Now, it is important to note that [255] the transaction was never consummated through eBay and at the end of the day, it was still an introduction of two people and it was—it enabled them to agree on a price as well, but it was still just an introduction.

* * * *

[387] Q That is your acknowledgment of the human resources handbook?

A Yes, that is right.

Q It indicates that at paragraph 2 that your job offer is effective December 23, 1994.

A I see that, yes.

Q Is that an accurate start date as far as, you know, of your employment with General Magic?

A I believe so. I believe I started right at the end of 1994, so that is correct.

Q If you could, turn to GM 22 in this Exhibit 35 (sic), do you see there is a notice to employee as to change in relationship form?

A Yes, I see that.

Q Do you see that it has a voluntary quit effective August 2, 1996?

A Yes, I see that.

Q Do you see your signature at the [388] bottom acknowledging a copy of the notice on August 2nd, 1996?

A Yes.

Q Did you understand under your employment agreement that you had a duty of loyalty to your company?

MR. RANDALL: Are you asking about a specific position in the agreement that he signed?

MR. ROBERTSON: Just generally did he understand that he had a duty of loyalty to General Magic.

THE WITNESS: "Duty of loyalty" is not a phrase that I recall hearing. So where does that show up?

BY MR. ROBERTSON:

Q Did you understand that you had an obligation under the law to present your employer with corporate opportunities?

MR. RANDALL: Objection. Lacks foundation. It is vague and ambiguous.

THE WITNESS: Yes. I was not—I [389] was not familiar with that law that you are stating.

BY MR. ROBERTSON:

Q Did you inform general Magic that you were developing a Website that would provide auction services between September of 1995 and your termination in August of 1996?

A It depends by what you mean by inform. I made my manager aware of what I was doing on my off time. My colleagues were also aware.

Q Did you offer to provide the software that you had created to perform the service offered by eBay available to General Magic?

A I was never asked to make that offer.

Q Did you think you had an obligation to provide that software to General Magic?

MR. RANDALL: Objection. Lacks [390] foundation. Calls for speculation. It is vague and ambiguous.

BY MR. ROBERTSON:

Q Do you need the question read back?

MR. RANDALL: Was there a question pending? What was the question?

THE WITNESS: He objected and I phased out.

(The reporter read the record as requested.)

THE WITNESS: So no, I did not think I had an obligation. In fact, there is a clause in here that states pretty clearly where future inventions are known entirely by you, it says.

So my layman's understanding of that, because I did not have an attorney necessarily review it on my behalf was that I owned my inventions.

BY MR. ROBERTSON:

Q Did you consult an attorney with [391] respect to whether or not you had some obligation to provide that software to General Magic?

A During what time period?

Q During the time period from late August of 1995 to termination of your employment in August of 1996.

MR. RANDALL: I will caution you not to reveal confidential conversations you had with counsel. To the extent that you do not feel you had such an obligation, you can certainly tell Mr. Robertson.

THE WITNESS: Of course. So I cannot answer that question because I did have conversations with counsel.

BY MR. ROBERTSON:

Q You did have conversations with counsel?
A I guess I'm not supposed to answer that question.
Q I do not want the substance.

MR. RANDALL: Let-me talk to the [392] witness for a minute.

MR. ROBERTSON: You have been talking to the witness all day.

MR. RANDALL: If you need to reveal confidential privileged information between you and an attorney, do not reveal that portion.

If you have an understanding separate and apart from any communication you may have had with your attorneys, that you had no obligation whatsoever to provide anything that you did on your own time to General Magic, then say so.

THE WITNESS: Well, it is not, actually. I did previously state that according to this clause, which I referred to, that I did not feel. I answered your first question about whether I had an obligation, and I told you I did not have an obligation.

BY MR. ROBERTSON:

Q My second question was, did you [393] consult an attorney with respect to whether or not you had an obligation? I don't want to know the substance of your conversation. I

want to know, did you consult an attorney during that time period?

MR. RANDALL: If the question is simply, did you consult with an attorney during a certain time period, you can certainly answer that.

MR. ROBERTSON: Of course.

MR. RANDALL: Yes or no.

THE WITNESS: I want to be clear. Your prior question about whether I felt a sense of obligation I already answered negatively. No sense of obligations based on my layman's interpretation of this agreement.

I did not consult an attorney to inform that sense of obligation in myself.

BY MR. ROBERTSON:

Q On page 1 of the agreement under General Magic's right and inventions, [394] subheading I, you agree to make full written disclosure in confidence to General Magic of any and all inventions that you developed during or as a result of your employment at General Magic.

Did you make full written disclosure to General Magic of your development of the eBay software?

MR. RANDALL: Objection. Assuming facts not in evidence and lacks foundation.

THE WITNESS: Does that mean that I don't answer the question or how does that work?

MR. RANDALL: That means that you should answer the question.

THE WITNESS: I did not make a written disclosure about eBay to anyone at General Magic that I recall. Although I have to say—well, with the exception of potentially e-mails

that may have gone out. But in terms within the context of a legal thing, that I don't recall if that existed.

[395] BY MR. ROBERTSON:

Q Did you speak to any officers at General Magic disclosing the eBay software that you developed during your employment at General Magic?

MR. RANDALL: That questions lacks foundation and assumes facts not in evidence, namely that he would be required under this agreement.

THE WITNESS: As I previously stated, I had—my understanding of what this agreement was, I did not have an obligation to disclose was my understanding, which may have been erroneous, but that is for you guys to tell me, I suppose. I did discuss it with my manager.

So I felt that I had fully addressed my responsibilities.

BY MR. ROBERTSON:

Q The question was, did you tell any officers that eBay had developed eBay software during your employment at General [396] Magic?

MR. RANDALL: I think you misspoke.

BY MR. ROBERTSON:

Q Let me rephrase the question. Did you tell any officers at General Magic of the software that you developed for your eBay Website?

A There came a time when I did tell various officers or various officers became aware of eBay and the fact that it was being developed while I was an employee.

Q Which officers?

A That I do not recall specifically, but—

Q When did that occur?

A That, also, I do not recall specifically. It may have been after I left the company.

Q Did you ever get a release from General Magic indicating that they no longer claimed any rights in the software that you [397] developed to operate the eBay Website?

MR. RANDALL: Objection. Assumes facts not in evidence that they ever did seek a release. They no longer sought a release. It also assumes—lacks foundation whether or not they would ever be entitled to make that claim.

THE WITNESS: Yes. Again, I do not know if it was terribly relevant. The information was out there. People knew what I was doing.

BY MR. ROBERTSON:

Q The question is, did you ever get a release from General Magic with respect to this software that you have been discussing? Yes or no?

MR. RANDALL: Objection. Lacks foundation. Assumes facts not in evidence.

THE WITNESS: I do not recall receiving anything personally. It is entirely possible that at some later date that eBay legal went and talked to them. I [398] have no idea.

BY MR. ROBERTSON:

Q You have no idea?

A I have no idea if that has actually taken place or not. But as far as me personally receiving anything during that time period, no, I did not.

Q We discussed this earlier. You are generally aware that public use of an invention can be rendered unpatentable if no patent is applied for more than one year after that public use or commercial use; correct?

MR. RANDALL: Objection. Assumes facts not in evidence and calls for a legal conclusion.

THE WITNESS: We discussed the general concept. I did not know if it was a year or anything like that or how you define public use or commercial, but the general notion.

(Omidyar Deposition Exhibit

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case Number 2:01-CV-736

MERCEXCHANGE, L.L.C.

Plaintiff,

v.

EBAY, INC.,

Defendant.

VIDEOTAPED DEPOSITION OF JOHN PHILLIPS

Reston, Virginia

Tuesday, June 4, 2002

* * * *

[199] they all occur—strike that.

Your communications with Mr. Monahan and Cohen of eBay, did those communications all occur before you began to have communications with Mr. Kumamoto?

A. I guess that's right, yes.

Q. And did you call—strike that. Who did you have your first communication with at eBay? Was it Mr. Cohen?

A. I guess that would have been Mr. Cohen, yes.

Q. And you have gone to law school with him?

A. Yes.

Q. So did you call him up at eBay? What did you do?

A. I'm speculating here. I think what happened is, I saw the announcement, I had just moved in-house, and I called him up and saying, "Hey, look at us, we both have gone to

Internet companies. Let's get together for lunch sometime," type of call, is my best guess.

[200] Q. Do you talk about the Woolston patents?

A. At some point we discussed at least one of the Woolston patents. I don't know if it was that phone call or a subsequent one. There might have only been one. I just don't remember.

Q. And so you brought up the Woolston patents to Mr. Cohen?

A. Yeah. I don't believe he was aware of them until I told him.

Q. So you said, "Hey, we are both working at Internet companies now, let's have lunch sometime," and then at some point during the conversation, you brought up the Woolston patents; is that—

MR. CAMPBELL: Objection Form.

THE WITNESS: Again, this is speculation, but my general recollection of the conversation is that Todd was telling me, Todd, Mr. Cohen, was telling me about what he was working on and the issues that he was facing or the company was facing, and one of them was eBay's lawsuit against Bidders Edge, to preclude them [201] from pegging their web site, and I had knowledge of Mr. Woolston's portfolio, had the claims, patent claims relevant to that, and I discussed the possibility of Mr. Woolston, of eBay gaining the benefit of that potential patent protection.

Q. And when you say that Mr. Woolston's patents had claims that were relevant to that, are you suggesting that Mr. Woolston's—strike that.

Are you suggesting that Woolston's patents could have been used against Bidders Edge?

A. That was a possibility that I thought warranted the exploration.

Q. So you suggested to Mr. Cohen that eBay explore Mr. Woolston's patents as a potential means to combat Bidders Edge; is that right?

A. EBay had already sued Bidders Edge, as I understand, on a computer trespass, which is a relatively novel theory, and doesn't have much force to—behind it, at least at that time.

Patent rights in my mind were a better vehicle to address that type of activity, and I suggested to Mr. Cohen that eBay may want to [202] explore that.

Q. Did you suggest to Mr. Cohen that eBay might want to explore obtaining the Woolston patent portfolio so that they could use it against companies in the Bidders Edge business?

A. I don't remember the exact terms I used, but that was one of the possibilities, yes.

Q. And what did Mr. Cohen say to you?

A. I don't recall specifically. I recall expression of considerable interest on his part.

Q. Did you, during that call, say to Mr. Cohen that you felt that eBay was infringing any of the MercExchange patents?

A. I don't believe I said that, no.

Q. After that communication with Mr. Cohen, what was the next communication you had with anyone at eBay?

A. I'm not entirely certain of this. My recollection is that somehow a call was set up with me and Mr. Monahan, and for some reason I seem to remember that he called me, but I'm not sure that's entirely accurate.

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

EXCERPTED VIDEOTAPED DEPOSITION OF JOSEPH PETSICK, Taken by me, Deborah M. Fernau, Court Reporter and General Notary Public within and for the State of Nebraska, commencing at the hour of 11:30 a.m., on the 10th day of June, 2002, at the law offices of LIAKOS, EPSTEIN & MATUKEWICZ, L.L.P., 8701 West Dodge Road, Suite 406, Omaha, Nebraska.

* * * *

[38] A. It was my understanding that most of the work that happened in that office was development of actual technical products.

Q. When you say "development of technical products," I gather that the people are probably engineers of some sort or programmers?

A. Yes. The people that I interacted with were either an engineer and/or a programmer.

* * * *

[39] earlier?

A. I can't recall. I gave you a guess.

Q. Okay.

A. And I've no specific knowledge of any specific head count of who did or did not exist in that building.

Q. Okay. Did they ever develop a working system for Leftbid?

MR. BRIGGS: Objection, lack of foundation. You can answer.

THE WITNESS: Well, um, not that I'm aware of.

BY MR. HENDERSHOT: Q. Were you aware of most products that were developed at Aden and it's affiliated companies?

A. Only regarding Leftbid at the time Navlet would have been existing and doing work.

Q. So if you were aware of products developed for Leftbid, you would have been aware of any products developed for Leftbid by Navlet?

A. Yes.

Q. Are you aware of any product developed for Leftbid developed by Navlet?

[40] A. Not that was ever used by Leftbid or that was in proper working order.

Q. What do you mean by "proper working order"?

A. At the time that Leftbid was scheduled to try to broadcast an auction from France, the system that Navlet had so far worked on, did not work.

Q. And when you said "the system that Navlet had so far worked on," that was the system developed in the Navlet DC office?

A. I believe it was, yes.

Q. What didn't work about it?

A. It didn't deliver the functionality built and the requirements necessary to properly broadcast an auction to allow them to bid within it.

Q. Did Leftbid ever conduct any on-line actions?

A. Yes, it did.

Q. What software did it use to conduct the on-line auctions that it did conduct?

A. It uses software discovered from a third party.

Q. Do you recall who that third party is?

[41] A. The name of the company I believe was Softglobe.

[64] Q. How about the operations of the Leftbid auction, compared to the operations of the eBay auction, was that ever discussed at Aden?

A. Uh, I'm pretty certain it probably was.

Q. Do you recall being party to any of those discussions?

A. I recall no specific discussion, but I do understand that I know that often—often times people in the office talked about eBay

* * * *

[105] that Navlet had developed to date because it was not properly functioning, Mr. Borghi, Mr. McEachern, and perhaps others, searched and located the Softglobe software.

Um, I was asked to travel to Paris to help facilitate the use of that Softglobe software from the auction floor. And at that time, I flew over there with Mr. Borghi, and started working with him daily to help broadcast his auctions from Paris and Europe. So that's—that's how that situation developed for me.

* * * *

[106] Q. Did you or Mr. Maxwell, after the calls will Tom Woolston on Friday, June 7th, ever discuss the possibility of being sued?

A. Yes.

Q. When did you discuss that?

A. Um, on June 7th, I think, roughly around 4 p.m.

Q. What was the nature of that conversation?

A. Um, Mr. Maxwell had just, I believe, finished a phone

call with Mr. Liakos, who had relayed to Mr. Maxwell that he was told if we did not move forward with the motion to quash—I believe was the word that was used—that a lawsuit was threatened against us as individuals by whomever Mr. Liakos spoke to with Hunton & Williams.

Q. After you instructed Mr. Woolston to contact your counsel—strike that. Did you personally tell Mr. Woolston to contact your counsel, Mr. Liakos?

A. I recall, yes, that I did.

Q. Did Mr. Woolston call your offices after you gave him that instruction?

[107] A. Yes, he did.

Q. Did he give you an estimate—can you—how many times did Mr. Woolston call your offices after that?

A. I think twice after, which I did not speak to him at either time. I believe Mr. Maxwell did.

Q. Did Mr. Maxwell ever tell you that he—that Mr. Woolston threatened suit against him and you? A. I don't recall that he did.

Q. Were you ever contacted by an attorney from Cooley Godward, counsel for the defendants?

A. Yes, I was.

Q. Were you personally contacted?

A. Yes, I was.

Q. Do you recall the name of the attorney who contacted you?

A. I do not.

Q. Was it Kenneth Chang?

A. That does sound familiar.

Q. What did Mr. Chang call up to discuss with you?

A. He prefaced his conversation letting me know that he was representing eBay in regards

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

EXCERPTED VIDEOTAPED DEPOSITION OF KENNETH MAXWELL, taken by me, Deborah M. Fernau, Court Reporter and General Notary Public within and for the State of Nebraska, commencing at the hour of 8:30 a.m., on the 11th day of June, 2002, at the law offices of LIAKOS, EPSTEIN & MATUKEWICZ, L.L.P., 8701 West Dodge Road, Suite 406, Omaha, Nebraska.

* * * *

[90] that we had in our possession that we would be sued.
[91] Q. Did your attorney tell you that Scott Robertson of Hunton & Williams threatened to sue you and Mr. Petsick if you did not give MercExchange the documents in advance of providing them to eBay?

A. Yes.

Q. So just so I have the time line straight in my head, attorneys from the law firm of Hunton & Williams called Mr. Liakos a couple of times last week. On Friday, Scott Robertson, lead counsel for MercExchange, also an attorney for Hunton & Williams, called Mr. Liakos [92] and informed him that you and Mr. Petsick would be sued by MercExchange if

you did not produce the documents requested in the subpoena to MercExchange before he produced them to eBay?

Q. Is that correct?

A. Yes, that is correct, yes.

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

DEPOSITION OF CAMERON McEACHERN

HIGHLY CONFIDENTIAL—ATTORNEYS' EYES ONLY

DATE: JUNE 14, 2002

DAY: Friday

TIME: 11:13 a.m.

PLACE: Five Palo Alto Square
Palo Alto, California

PURSUANT TO: Notice, Subpoena

REPORTED BY: LOUISE MARIE SOUSOURES,
CSR No. 3575

* * * *

[83] I didn't—that's about it.

Q. Did he talk about the lawsuit at all?

A. He—

MR. FITZPATRICK: Objection, calls for hearsay.

THE WITNESS: He did. He said in regards to the subpoena, a whole bunch of people had been subpoenaed. And

he said, what do you want to do about it? I said, I have surgery scheduled that day that I waited years to get and I wanted to get it and I really wanted to get out of testifying that day. I didn't tell him I was leaving the country or anything. I said I did not want to miss this opportunity of having this procedure. And he said we can help and I said, that's great, but I have my own attorney, let me speak to my attorneys tomorrow and we will call you from his office.

BY MS. LANZ:

Q. Did he say in what ways he would help?
A. I don't know. He said he could help and that was it.
Q. Did he—by help, you mean help you not testify?

MR. FITZPATRICK: Objection, calls for [84] speculation.

THE WITNESS: Well, if you take my wife's opinion, she wanted him to pony up a check for my legal expenses.

BY MS. LANZ:

Q. Did he do so?
A. No.
Q. Okay.
A. So, I really didn't discuss it at all, because I didn't know what help I needed, to be quite frank with you.
Q. Okay. And then did you ever talk to him again after that conversation?
A. Yeah, I rang him straight back because I had given him the wrong time I was speaking to my lawyer and he would have been expecting a call an hour earlier and I corrected that. So, probably one or two minutes later.
Q. Okay. I'm sorry, who would be expecting a call?
A. What I said, I said to Tom, look, I have an appointment, specific time at I think it was 11:00 o'clock, I will call you your time at 1:00 o'clock. I forgot it was going to be at 2:00 o'clock, because I was figuring he was in Omaha.

* * * *

[96] Q. What is your understanding of the cross-ownership relationship?

MR. BRIGGS: Objection, calls for a legal opinion.

THE WITNESS: I didn't—I didn't think that Tom allowed to have any piece of MercExchange. I felt that MercExchange had securities—had some ownership of Aden. So—

BY MS. LANZ:

Q. And do you know what is meant by the phrase "the unique synergy that will allow Aden to profit from MercExchange's patent enforcement actions"?

MR. FITZPATRICK: Objection, calls for speculation.

BY MS. LANZ:

Q. What is your understanding of that?

A. My understanding is that MercExchange had an intent to enforce its intellectual property rights.

Q. And that's your—that was your understanding at the time?

A. It was a particular issue of debate between Tom and I on a regular basis.

Q. What was the subject of the debate?

A. He comes from a legal background. He very strongly believed he owned the intellectual property [97] that others were using. And he was aggressive about it. That's fine, that's okay, good luck to him, but this was a business plan based around the creation of a business and I never felt that one of the pillars holding up the business plan should be enforcement actions on patents. It just didn't make sense to me.

Q. But Tom Woolston did think—

MR. FITZPATRICK: Objection, calls for hearsay and calls for speculation, assuming the end of the answer is referring to your last comment—the witness last comment.

THE WITNESS: He did think that. He felt that it was—that it was an element of the business plan, yeah. He felt it was a strong element.

BY MS. LANZ:

Q. Okay. Were you—you had said you had a dispute about it?

MR. BRIGGS: Objection to the extent it mischaracterizes his prior testimony.

THE WITNESS: I wouldn't call it a dispute. We had numerous discussions on the matter.

BY MS. LANZ:

Q. Okay. And did Mr. Woolston ever go into any specific plans for patent enforcement activities?

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., *et al.*,

Defendants.

Reston, Virginia
Tuesday, June 18, 2002

VIDEO DEPOSITION OF THOMAS WOOLSTON

* * * *

[87] Q Can you answer my question? Did you consider yourself, at the time you filed your application, to be one of ordinary skill in the art as it pertains to your applications, yes or no?

A Well, I don't want to sound like a jerk, but I think I was one of extraordinary skill in the art.

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

DEPOSITION OF MICHAEL LUTHER, held at the Hotel Roosevelt, 45 East 45th Street, New York, New York, pursuant to Notice and Subpoena, before David Levy, CSR, a Notary Public of the State of New York.

* * * *

[23] its patent portfolio?

A. As I recall, it had assets. It was—it was a business that I felt was being responsibly managed, albeit small.

Q. Other than Mr. Woolston's management and that portfolio, do you recall any other significant asset that MercExchange might have had in January 1999?

A. I—I can't cite any specific asset. But as it was perceived by us, this was a business that had both human resources in terms of Mr. Woolston and other—other parties who were members of the MercExchange, had office facilities and had intellectual property. So I would suppose that that complement of resources constituted the bulk of the assets, if you will, of the company.

Q. Later, in paragraph 12 of Exhibit 1, the agreement states that in exchange for the services and funding, "Aden

shall obtain restricted common stock equal to ten percent of MercExchange on a fully-diluted basis."

Do you see that?

A. Yes.

Q. Did you read that sentence before you signed Exhibit 1?

A. Yes.

[24] Q. You understand that sentence?

A. Yes.

Q. So Aden was going to acquire ten percent of MercExchange?

A. Yes.

Q. For $250,000 and other services?

A. Yes.

Q. Did Aden pay the $250,000 to MercExchange?

A. I believe so.

Q. Do you recall when?

A. No.

Q. Do you recall if Aden paid the $250,000 to MercExchange referenced in paragraph 12 of Exhibit 1 shortly after the agreement?

A. I would imagine so.

Q. Prior to executing Exhibit 1 on January 19th,

* * * *

[29] Q. Any information Mr. Woolston asked for prior to executing Exhibit 1 he was provided with?

A. Yes.

Q. So to your knowledge, prior to Exhibiting Exhibit 1, Mr. Woolston had knowledge of Aden's financial situation?

A. Yes.

Q. Do you have any idea what that knowledge was based on?

MR. BRIGGS: Objection, calls for speculation.

A. No. No, I don't.

Q. Did you discuss with Mr. Woolston the subject of Aden's financial situation prior to executing Exhibit 1?

A. Yes.

Q. And you said information about Aden's finances were available in the public records at the time?

A. Over the course of time, I would imagine that one would be able to determine that, yes.

Q. Prior to January 19th, '99, would this information have been available in public records?

A. Sure.

Q. So around January 1999, did Aden's [30] liabilities exceed its total assets?

A. In all likelihood, yes.

Q. Prior to January 1999, had Aden Enterprises ever operated at a profit, to your knowledge?

A. Not likely.

Q. To your knowledge, was Mr. Woolston aware that Aden Enterprises had never operated at a profit prior to—

A. Yeah, I would suppose so.

MR. HENDERSHOT: I'd like to mark as Luther Exhibit 2 a U.S. corporation income tax return beginning—the year beginning May 1, 1998 through April 30th, 1999, bearing the name Aden Enterprises.

(Deposition Exhibit (Luther) 2, Aden Enterprises' U.S. corporate income tax return for period 5/1/98 through 4/30/99, marked for identification, as of this date.)

Q. Do you recognize Exhibit 2, Mr. Luther?

A. Yes.

Q. Do you recognize it as a tax return for Aden Enterprises?

A. Yes.

Q. Have you heard of the company, Blackman & Associates?

[31] A. Yes.

Q. How have you heard of the company, Blackman & Associates, Mr. Luther?

A. They produced this tax return.

Q. Do Blackman & Associates produce tax returns for Aden on a regular basis?

A. Yes.

Q. So sitting here today, you have no reason to question whether or not the numbers reflected here are accurate if they were prepared by Blackman & Associates?

A. Yes.

Q. I'd like to run through some numbers in here with you really quickly if you don't mind.

A. Sure.

Q. On the front page, in box D at the top of the page, right-hand corner, it lists Aden Enterprises' total assets, do you see that?

A. Yes.

Q. Lists them as $355,071. Is-that consistent with your recollection of Aden's financial situation in 1999?

A. Yes.

Q I'd like to refer you to what's marked as page 5 in the upper right-hand corner. [32] At line 13-A, it says "intangible assets," do you see that?

A. Yes.

Q. A number corresponding to line 13-A in column C is $59,161, do you see that?

A. Yes.

Q. So at the end of the tax year ending April 30, 1999, Aden had approximately $59,000 in intangible assets?

A. Yes.

Q. And $355,000 in total assets?

A. Yes.

Q. So Aden had a little under 300,000, if my math is right, in tangible assets?

A. Yes.

Q. The front page of Exhibit 2, I'd like to refer you to line 11.

A. Okay.

Q. It lists the total income for Aden Enterprises during the year May 1, 1998 through April 30, 1999.

A. Yep.

Q. It lists the number as $98,140 for total income, do you see that?

A. Yes.

* * * *

[34] Q. Other than amortization, do you see any entries in that list that are not operating expenses for Aden Enterprises?

A. No.

Q. So the $342,000 listed less the roughly 4,000 in amortization leaves about $338,000 in operating expenses—

A. Yes.

Q. —for Aden Enterprises in 1999?

A. Yes.

Q. So Aden Enterprises had $338,000 in operating expenses in 1999, and $98,000 in total income?

A. Yes.

Q. You say you have no reason sitting here today to question the figures I represented on this tax return marked as Exhibit 2?

A. No.

Q. Okay. Prior to executing the agreement marked as Exhibit 1, Mr. Woolston would have been aware of these figures?

A. Yes.

Q. In the agreement marked as Exhibit 1, Aden Enterprises is promising to issue four million shares of Aden stock to MercExchange.

A. Um-hum.

* * * *

[40] Do you see that?

A. Yes.

Q. It's fairly similar to the license grant that you obtained in the January 19th, 1999 agreement?

A. I believe so.

Q. Why did you all renegotiate the January 19th, 1999 agreement?

A. I believe that the relationship between Aden and the MercExchange was growing and becoming more expansive due to our mutual realization that what I said was true, that the relationship was expanding.

Q. How was it expanding, Mr. Luther, "It" being the relationship between Aden and MercExchange?

A. It was growing like a flower.

Q. When you say it's "growing like a flower," growing in terms of the involvement between the two companies, in one another's operations?

A. And the opportunities that existed in the e-commerce marketplace.

Q. I'd like to focus on the relationship between the companies for the moment, if you don't mind. At the time of April 20th, 1999, did Aden Enterprises own any ownership interest in MercExchange?

A. Can you restate the question?

Q. Sure. At the time that you executed Exhibit [41] 3 on April 20, 1999, did Aden Enterprises own any ownership interest in MercExchange?

MR. BRIGGS: Calls for a legal conclusion.

A. I believe the prior—the prior agreement that we referenced in previous testimony referred to Aden taking an ownership stake. And I believe that we were in compliance with that.

Q. So I take it pursuant to the January 19th, 1999 agreement, MercExchange also owned an interest in Aden Enterprises?

A. To my knowledge, yes.

Q. I'd like to direct your attention to paragraph 17. The final sentence reads, "Aden shall receive fifty percent of the net consideration after deducting legal fees and other costs of such action received on any enforcement action in the travel services industry," do you see that?

A. Yes.

Q. So you were buying a share of any recovery MercExchange might have from enforcing its patents in the travel services industry?

MR. BRIGGS: The document speaks for itself.

A. I—I'd be speculating as to exactly the

* * * *

[56] Q. Who is Anders Ulegard?

A. He is a gentleman who lives in Geneva, Switzerland.

Q. Do you know Anders Ulegard?

A. Yes.

Q. How do you know Anders Ulegard?

A. He's a shareholder in Aden Enterprises.

Q. Approximately how many shareholders does Aden Enterprises have?

A. Many.

Q. Is Anders Ulegard a significant shareholder in your company?

A. Yes.

MR. BRIGGS: I would object to the form. There was no time period stated.

Q. On September 22nd, 1999, was Anders Ulegard a significant shareholder in Aden Enterprises?

A. Yes.

Q. Would officers within Aden Enterprises in the September 1999 time frame often communicate with Mr. Ulegard about the operations of Aden Enterprises?

MR. BRIGGS: Objection, calls for speculation.

A. Mr. Ulegard is the chief executive officer of an investment banking firm called Quaestus [57] that provided investment banking services to Aden, so in the course of those activities, there was dialogue.

Q. About how often did officers of Aden Enterprises communicate with Mr. Ulegard?

A. During that period of time, frequently.

Q. On a daily basis?

A. I—I don't recall. Likely not daily.

Q. Would officers of Aden Enterprises often talk to Mr. Ulegard about just the day-to-day operations of Aden Enterprises or would the communications be limited to more significant events?

A. I—I would say that he was apprised of things that—that would have—the conversation would have been rather frequent. It certainly wouldn't be mundane issues.

Q. I hand you what I've marked as Exhibit 5, Mr. Luther. (Handing document to witness.)

Q. Take a moment to review it, if you want. (A pause in the proceedings.)

Q. Did employees and officers of Aden Enterprises often use e-mail to communicate during the 1999 time frame?

A. I assume so.

Q. Did you use e-mail often, Mr. Luther?

[58] A. Excuse me?

Q. Did you use e-mail often?

A. Yes.

Q. Do you know if Mr. Woolston used e-mail often?

A. I imagine.

Q. Did he e-mail you often?

A. I would imagine he did.

Q. Do you have any reason sitting here today to believe that this isn't an accurate copy of an e-mail sent from Mr. Woolston to Anders Ulegard on September 22, 1999?

A. I would imagine it is accurate.

Q. I direct your attention to the second line under "FYI," in the second paragraph. Would you read that line for me, please, Mr. Luther.

A. "As you know, we have eight pending patent cases."

Q. The next line, Mr. Luther.

A. "We have received a notice of allowability of claims that cover eBay, Fair Market, Open Site and other online auctions in one of the cases."

Q. Okay. The closing sentence of that paragraph beginning with "thus," would you read that for me?

A. "Thus, we should have a patent issuing in the [59] next month or two that read on eBay."

Q. I'm assuming, Mr. Woolston, that reads . . .

MR. BRIGGS: Is that a question?

MR. HENDERSHOT: Or just a comment.

Strike it, if you will.

Q. Do you see the last paragraph in Mr. Woolston' message, Mr. Luther, beginning with, "The allowance"?

A. Yes.

Q. It refers to the claims as "the eBay claims," do you see that?

A. Yes.

Q. You said that officers of Aden Enterprises wouldn't e-mail, Mr. Ulegard with mundane issues, is that correct?

A. Yes.

Q. So I take it there would be some significance attached to the events happening at the Patent Office that Mr. Woolston is referring to?

A. Well, I think that—I would constitute the relationship with Mr. Woolston and all the activities associated with our e-commerce business as being significant.

Q. Did Mr. Woolston e-mail Mr. Ulegard about all of the activities in the e-commerce area?

* * * *

[67] Q. Do you recognize Exhibit 6, Mr. Luther?

A. Yes.

Q. Do you recognize the e-mail account mluther628@aol.com?

A. Yes.

Q. Is that an e-mail account that you were using on or about October 3, 1999?

A. Yes.

Q. Do you recall receiving this e-mail from Mr. Borghi?

A. I believe so.

Q. Do you have any reason sitting here today to believe that you didn't receive this e-mail from Mark Borghi on October 3rd, 1999?

A. No.

Q. When was Leftbid founded?

A. Shortly after this e-mail was written.

Q. So, just to see if I've got the timeline straight in my head, you met Mr. Borghi when you bought some art from him on eBay, then you had some discussions, I take it, about the possibility of starting a business that led to Leftbid?

A. Correct.

Q. And Leftbid was founded sometime shortly after October 3rd, 1999?

[68] A. Yes.

Q. And Mr. Borghi joined Leftbid as its CEO when it was founded, is that correct?

A. Yes.

Q. On October 3rd, 1999, what stage were those discussions regarding the Leftbid idea at with you and Mr. Borghi?

A. Very preliminary.

Q. So you didn't have a website?

A. No.

Q. Didn't have auction software?

A. Correct.

Q. In the e-mail, Mr. Borghi refers to the possibility of using eBay initially to sell art.

A. Yes.

Q. Did you consider using eBay initially to sell art for Leftbid?

A. I don't recall. I'd say not necessarily.

Q. The third line of Exhibit 6, Mr. Borghi writes, "As to Leftbid, here are the pros and cons on using eBay," and then provides an analysis. Does that refresh your recollection as to whether or not eBay was considered as a vehicle for selling art for Leftbid?

A. I think that his e-mail speaks for itself. [69] He certainly considered it, and we talked about it.

Q. So nothing in the e-mail jumps out at you as inconsistent with your recollection of what was going on October 3rd, 1999?

A. No.

Q. I'd like to draw your attention to paragraph three quarters of the way down the page beginning with, "Maybe I'm looking too high." Mr. Borghi writes, "Maybe I'm looking too high but I think if what you guys tell me is for real, you do not need eBay. According to Tom, you're going to sue eBay in Virginia in the next couple of months. I cannot imagine that using their company will look too good in a civil action." In your preliminary discussions with Mr. Borghi regarding Leftbid in the October 1999 time frame, was there

any individual affiliated with Leftbid named Tom other than Tom Woolston?

A. No.

Q. So you understand the reference to "Tom" in the sentence I just read to be referring to Tom Woolston?

A. I would assume so.

Q. So Mr. Borghi writes that, "According to Tom, you are going to sue eBay in Virginia in the next

* * * *

(Recess taken.)

[95] VIDEOGRAPHER: We're returning to the record, 10:30 from 10:18.

EXAMINATION (Cont'd.)

BY MR. HENDERSHOT:

Q. Mr. Luther, before we went off the record, I had asked you if Mark Borghi had voiced any concerns that Mr. Woolston's development efforts for the Woolston engine for the Leftbid website might have included unnecessary features from the Woolston patents; do you recall the question?

A. I do.

Q. I'll give you a chance to answer it again because we cut you short last time.

A. He could have made statements pertaining to that.

Q. And Mark Borghi was CEO of Leftbid?

A. Correct.

Q. I'd like to direct your attention back to Exhibit 7. I'd like to discuss a few of the terms. Paragraph 1.1 on the first page—

A. Yeah.

Q. —in October of 1999, did you understand that Leftbid was acquiring a nonexclusive license to Mr. Woolston's patents in the fine art sector?

[96] A. Yes.

Q. And in paragraph 1.2, did you understand that Leftbid was contractually obligated to assure that there was a tight nexus between its commercial product and Mr. Woolston's patents?

MR. BRIGGS: Objection, it calls for a legal conclusion.

Q. I'm just asking your understanding at the time.

A. Yeah, I'm a little bit foggy on this particular point. I mean, I'm—given that I was not a signatory to the document, and that I'm not an attorney, I'm—I'm reading it as it—as it is written, and I think I understand the interpretation of it.

Q. What's that understanding?

A. Of tight nexus?

Q. You said you understand the interpretation of it.

A. Yeah.

Q. I'm just asking what that understanding is.

A. My understanding is that Leftbid—Leftbid greed by virtue of this document to—to be in the development, I assume, develop its Internet market and markets and auctions that would employ elements of the [97] Woolston patents that are delineated on Exhibit—article 4.

Q. So you understood that there was some contractual obligation for Leftbid to tie its products in some way to Mr. Woolston's patents?

A. I understand that in reading this. I don't recollect at the time.

Q. So I'm clear, you recollect that you did not understand that or you don't recollect having an understanding?

A. I don't recollect having an understanding.

Q. I'd like to direct your attention to 1.3 on page 2. It says, "As partial consideration for the license provided herein, Leftbid tenders 7.5. percent of its shares to MercExchange."

Do you see that?

A. Yes.

Q. Did you read paragraph 1.3 in October of 1999?

A. I don't recollect.

Q. Did you understand in October of 1999 that Leftbid was giving 7.5 percent of its shares to MercExchange?

A. Yeah, there were a series of agreements, one of which we've discussed previously, the original [98] agreement with MercExchange, and I believe that there are successor agreements. I was not a signatory to this document, so I can't specifically state what I—was aware of and what I was not aware of.

Q. But you were CEO of Aden Enterprises—

A. That's correct.

Q. —and Aden Enterprises owned one hundred percent of Leftbid's shares in October of 1999, prior to executing this agreement?

A. Not necessarily.

Q. I thought you said it was a wholly-owned subsidiary when it was founded.

A. It would have been a wholly-owned subsidiary the day it was founded and then we brought in other shareholders.

Q. What were Leftbid's assets on October 8th, 1999?

A. I don't recall.

Q. But you said Leftbid did not have a website when it was founded?

A. Correct.

Q. And it didn't have a website, I presume, on October 8th, 1999?

A. I wouldn't necessarily conclude that. I—

* * * *

[103] Q. So it was a contractual obligation there but given the fluid nature of how everything was working—

A. Correct.

Q. —it's not—you're not certain whether or not that actually would have occurred.

A. That's right.

Q. Do you recall if Mr. Woolston ever served as an officer of Leftbid?

A. I think he was on the board.

Q. Actually, I'm going to try to speed this up.

MR. HENDERSHOT: I'd like to mark as Exhibit 9 a Xerox copy of four business cards of Thomas G. Woolston.

(Deposition Exhibit (Luther) 9, Xerox copy of four business cards of Thomas G. Woolston, marked for identification, as of this date.)

Q. Have you had a chance to review what's been marked as Exhibit 9, Mr. Luther?

A. Yes.

Q. I'd just like to run through these and see if they were consistent with your recollection of Mr. Woolston's role. You said you thought Mr. Woolston was on the [104] board of Leftbid. Do you also recall him serving as chief technology officer?

A. Yes.

Q. Do you recall Mr. Woolston serving as CEO and president of Navlet?

A. Yes.

Q. Do you recall Mr. Woolston serving as managing director of MercExchange?

A. Yes.

Q. And do you recall Mr. Woolston serving as chief technology officer of Aden Enterprises?

A. Yes.

Q. Do you recall if Mr. Woolston held any of these positions at the same time?

A. I assume so.

Q. But to your knowledge, when he was an officer of Aden Enterprises during his time with Aden, he was still managing director of MercExchange?

MR. BRIGGS: Calls for speculation.

A. I don't know.

Q. I'd like to direct your attention to the last page of Exhibit 7, which is the Leftbid license. Do you see who signed on behalf of MercExchange?

A. I've stated that in previous testimony.

[105] Q. Is that Thomas G. Woolston's name signed on behalf of MercExchange?

A. Indeed it is.

Q. Does that refresh your recollection as to whether or not Mr. Woolston was: acting as managing director of MercExchange at the same time he was an officer of Aden Enterprises?

A. Presumably so.

Q. Do you recall when Mr. Woolston held any of these positions with the Aden companies?

MR. BRIGGS: Objection, vague and ambiguous.

Q. Do you recall when Mr. Woolston was chief technology of Leftbid?

A. Somewhere between October of 1999 and the spring of 2000.

Q. Do you recall when Mr. Woolston served as CEO and president of Navlet?

A. All—same for all the above.

Q. When the Leftbid license agreement with MercExchange was executed on October 8th, 1999, to your knowledge, was Mr. Woolston serving as an officer of one or more of Aden's subsidiaries?

A. I would assume he was.

Q. And at that same time on October 8th, 1999, [106] was it your understanding that Mr. Woolston was also serving as a managing director of MercExchange?

A. I think it's managing member, is how he signed it, yeah.

Q. But is it your understanding that Mr. Woolston was serving as managing member?

A. To the best of my knowledge, yes.

Q. And on October 8th, 1999, to the best of your knowledge, Aden owned some ownership interest in MercExchange or was entitled to shares?

A. Yes.

Q. And on October 8th, 19999, MercExchange owned an interest in Aden Enterprises or was entitled to claim shares demonstrating such an interest?

A. Yes.

MR. HENDERSHOT: I'd like to mark as Exhibit 10 a license agreement between Aden Enterprises and MercExchange LLC dated October 28th, 1999, bearing Bates number ME 0024198 through 24206.

(Deposition Exhibit (Luther) 10, license agreement between Aden Enterprises and MercExchange LLC dated 10/28/99, Bates numbered ME 0024198 through 24206, marked for identification, as of this date.)

* * * *

[114] was. It—it could have been. Maybe it was because we offset royalties that were owed to them. I don't recall specifically.

Q. At the time you executed Exhibit 10 on October 28th, 1999; did you understand the grant of the 53 million warrants for shares of Aden stock to replace any ownership interest MercExchange might have had in Aden prior to that date?

A. Yeah.

Q. So on October 28th, 1999, why did you agree to give MercExchange 43 million more shares than you had earlier in the April 20th, 1999 agreement, for the same license?

A. That's a really good question.

Q. Do you recall any reasons?

A. We thought he was really smart.

Q. So I take it MercExchange paid $53,000 to Aden to exercise the 53 million shares?

A. Speculating. Just speculating. As I said, I don't know whether we offset moneys that were owed or what.

Q. Did you read paragraph 1.5 before you executed the exhibit marked as—

A. Yes.

Q. —Exhibit 10?

[115] A. Yep.

Q. So pursuant to paragraph 1.5 of Exhibit 10, Aden was purchasing ten percent ownership of MercExchange?

A. Yep.

Q. In consideration for two notes payable in the amount of $4 million?

A. Um-hum.

Q. Why, on October 28, 1999, was Aden going to pay $3.75 million more than it was obligated to pay for the same ownership interest in MercExchange pursuant to the January. 19th, 1999 agreement?

A. That's a good question. I don't recall. That's a good question.

Q. You don't recall any reason whatsoever?

A. Except that I—I guess we—we felt that—that Tom Woolston and MercExchange had—had an opportunity to help our Company immensely, and I think that there was—part of it was just qualitative, was just recognizing the value of their role, which seems to be kind of odd. But I believe that was the genesis of it.

Q. And that role was a role that had expanded between January 19th, 1999 and October 28th, 1999.

A. Right, yeah.

* * * *

[141] Q. —document marked as Exhibit 12?

A. No.

MR. HENDERSHOT: I'd like to mark as Exhibit 13 a complaint in the U.S. District Court for Nebraska filed by Aden Enterprises against MercExchange, LLC.

(Deposition Exhibit (Luther) 13, complaint filed in the U.S. District Court for Nebraska filed by Aden Enterprises against MercExchange, LLC, marked for identification, as of this date.) (Document placed before the witness.)

Q. Do you have Exhibit 13 in front of you, Mr. Luther?

A. Yes.

Q. Would you take a moment to review it for me. (A pause in the proceedings.)

A. Okay.

Q. Would you refer to paragraph 6 of the complaint. Do you see paragraph 6, Mr. Luther?

A. Yes.

Q. Paragraph 6 reads, "On or about January 7th, 2000, the plaintiff," being Aden Enterprises, "Through its president and chief executive officer, entered [142] into a patent enforcement agreement." Does this refresh your recollection as to when you executed the patent enforcement agreement marked as Exhibit 12?

A. I think that's. what I said, didn't I?

Q. I think—I think you presumed that you executed it on January 7th based on the date of the option agreement referred to therein.

A. Oh.

Q. Does Exhibit 13 refresh your recollection as to when you executed the patent enforcement agreement marked as Exhibit 12?

A. I'm—I'm inferring it was January 7th, 2000.

Q. I direct your attention back to Exhibit 12, the patent enforcement agreement. Would you read paragraph 1 for me.

A. "Whereas MercExchange LLC ('MercExchange') believes that it has claims rising under the patent laws of the United States—"

Q. I don't mean to interrupt, Mr. Luther, but the paragraph numbered 1.

A. "Unless otherwise agreed to in writing, the infringing party referred to herein on the subject of the enforcement pro-

ceedings is eBay, Inc., the [143] infringing party, a California corporation, currently in the business of conducting—"

Q. That's good enough. I just want to identify eBay. If I could direct your attention to paragraph numbered 2 on the first page of. Exhibit 12, it provides that, "Aden and MercExchange hereby agree to share in the costs and expenses of any enforcement proceedings involving the MercExchange patents against the infringing party with Aden paying nine-tenths of those costs and expenses and MercExchange paying one-tenth of the costs and expenses." Do you see that?

A. Yeah.

Q. So prior to January 7th, 2000, had you reached an agreement with MercExchange, and "you" being—you acting in your capacity as CEO of Aden—to bring suit against eBay whereby Aden and MercExchange would share in the costs and expenses of the proceeding?

A. Well, as evidenced by this contract that—that certainly is what we agreed to do.

Q. I would direct your attention to paragraph 3, which states, "Aden will receive 22 percent of any recovery," do you see that?

A. Yes.

[144] Q. Is that consistent with your understanding of the agreement on January 7th, 2000, that Aden would receive 22 percent of any recovery—

A. Yes.

Q. —had from eBay?

A. Yes.

Q. So on January 7th, 2000, Aden Enterprises entered into an agreement with MercExchange marked as Exhibit 12 whereby Aden would share in the costs and expenses of the suit against eBay based on Mr. Woolston's patents and Aden would receive 22 percent of any recovery; is that correct?

A. That's right.

Q. Do you recall if Aden and MercExchange ever entered into a contract similar to the one marked as Exhibit 12 where a party other than eBay was named as the infringing party?

A. Yeah, I believe that—I believe Priceline was the first initiative, and I don't recall whether that was contractual in nature or not. But in the travel sector, and in the auction sector, those were two places that there were infringement issues.

Q. So other than Priceline and eBay, were there any other third parties that were identified as an

* * * *

[156] A. Aden didn't hold any. Of Aden's shares? Aden—the parent company wouldn't have held any of the Aden shares. It would have been third parties that held the shares.

Q. How many of the few hundred million shares of Aden stock were available for trading to retail investors in January of 2000?

A. Quite a few. I'm speculating. And the number changed. Certainly tens of millions.

Q. In January of 2000, was Thomas Woolston still employed by Aden Enterprises?

A. January of 2000, I'm assuming so.

Q. To your knowledge, in January of 2000, was Thomas Woolston still president of Navlet?

A. Yeah, I believe so.

Q. And chief technology officer of Aden?

A. Right.

Q. And chief technology officer of Leftbid?

A. I'm assuming that time period that he would have been in that position in those companies.

Q. And on January 24th of 2000, did Aden Enterprises own an interest in MercExchange?

A. Whether—whether the securities were held or we had a contract for those shares, yes.

Q. Prior to January 24th, 2000, MercExchange [157] held shares of Aden Enterprises, is that correct?

A. Either by contract or physically, yes.

Q. Was Tom Woolston still in his position as an officer of Aden and its subsidiaries in March of 2000?

A. I think—I think that his tenure with the company came to a close pretty quickly thereafter. So I don't—I don't recall the exact date. But that would be getting close to the period when he left.

Q. Did he leave prior to or after the first Leftbid auction?

A. About the time of:

Q. And March 1st of 2000, do you think Tom Woolston was still working with Navlet?

A. I'm assuming so.

Q. And he would have been working in his capacity as president and CEO?

A. Yeah.

Q. On March 1st of 2000, Aden held an ownership interest in or was entitled to hold an ownership interest in MercExchange?

MR. BRIGGS: Asked and answered.

A. Yeah, I believe so.

Q. And on March 1st of 2000, MercExchange held shares or was entitled to shares of Aden Enterprises?

A. Sorry?

[158] MR. HENDERSHOT: Would you read the question back?

(Record read.)

A. I believe so.

MR. HENDERSHOT: Mark as Exhibit 16 a license agreement between Navlet.com, Inc., and MercExchange. It is dated March 1st, 2000, bearing Bates numbers ME 0052370 through 52375.

(Deposition Exhibit (Luther) 16, agreement between Navlet.com, Inc., and MercExchange dated 3/1/00, Bates

numbered, ME 0052370 through 52375, marked for identification, as of this date.)

Q. Do you have Exhibit 16 in front of you, Mr. Luther?

A. Yes.

Q. Would you take a moment to review it, please.

A. Yep, I see it.

Q. Is that your signature on the last page of Exhibit 16?

A. Yep.

Q. Do you recognize Exhibit 16, Mr. Luther?

A. Yep.

Q. Do you recognize Exhibit 16 as a license [159] agreement executed by Navlet.com and MercExchange on the first day of March 2000?

A. Yes.

Q. And on March 1st of 2000, you said you believed Mr. Woolston was still acting as CEO and president of Navlet?

A. Yes.

Q. Why didn't Mr. Woolston execute the agreement I marked as Exhibit 16 on behalf of Navlet?

A. I don't know.

Q. Do you recall any of the circumstances surrounding the negotiations that led to Exhibit 16, being the license agreement between Navlet and MercExchange?

A. I don't recall specifically. I think that -I don't recall specifically.

Q. Were you an officer of Navlet on March 1st, 2000?

A. Likely I would have been.

Q. Do you recall what office you might have held?

A. I was a board member. I—I'm assuming I had an executive officer role.

Q. But Thomas Woolston was president.

A. Yes.

[160] Q. I'd like to direct your attention to the signature on the left of page 6, the leftmost signature on that page.

A. Yes.

Q. The signature is above the name Thomas G. Woolston, do you see that?

A. Yes.

Q. Does that refresh your recollection as to why Mr. Woolston might not have executed the agreement marked as Exhibit 16 on behalf of Navlet?

A. I don't understand your question.

Q. Do you recall if Mr. Woolston negotiated the agreement marked as Exhibit 16 on behalf of MercExchange?

A. I assume he did.

Q. Do you recall if Mr. Woolston negotiated the document marked as Exhibit 16 on behalf of Navlet?

A. No, I would imagine, because it was a—it was a related party to the company, I would imagine that that would have been the reason that there would have been a, you know, another party who would have been counter to it. An independent party.

Q. So that's probably why you signed it?

A. I'm assuming so.

Q. I'd like to direct your attention to [161] paragraph 2.1. Did you read paragraph 2.1 before you signed Exhibit 16?

A. Yep.

Q. On March 1st of 2000, did you understand that Navlet was acquiring a nonexclusive license to MercExchange's patents in the infrastructure provider sector?

A. I don't recall.

Q. On March 1st of 2000, did you understand that Navlet was acquiring some license right to Mr. Woolston's patents?

A. I—specifically as it relates to Navlet, I know that—that things were developed by Navlet that presumably had some intellectual value. We were the owners of Navlet. It was a wholly-owned subsidiary of Aden, and I can't tell you specifically any kind of interaction between Aden and Navlet, or MercExchange.

Q. And when you say MercExchange, you mean the relationship between MercExchange and Navlet?

A. Yeah.

Q. Could you have told me much about the interaction between Navlet and MercExchange on March 1st of 2000?

A. Navlet was, as I mentioned, a company that was wholly owned by Aden, had a lot of employees, and [162] was developing things, and those were embodied in technology. So that was—that was a stand-alone entity. And as it relates to the MercExchange patent or patents being applicable to that, I—you know, I don't have any specific understanding of that.

Q. Maybe I can try to be more specific.

A. Yes.

Q. On March 1st of 2000 or before March 1st of 2000 when you read paragraph 2.1 of the agreement I've marked as Exhibit 16—

A. Yup.

Q. —did you understand that Navlet was acquiring, pursuant to paragraph 2.1, a non-exclusive license to Mr. Woolston's patents in the infrastructure provider sector?

A. I don't recall that. I'd say it's vague at best.

Q. I'd like to direct your attention to paragraph 3.2 on page 3, which provides that "Navlet shall pay MercExchange an annual payment of either the first $50,000 of gross transactions collected or earned by the company, or"—what looks to be modified to—"2.5 percent continuing royalty of the net revenue generated in the infrastructure provider sector," do you see that?

[163] A. Um-hum.

Q. On March 1st of 2000, did Navlet have any products that it was marketing?

A. Navlet had a pretty neat—a pretty neat application that I think was—we were actually using it for a while, and we were using it in the travel industry. And so I would say that marketing in the sense that the—the application was developed, working, being, shown to people. Whether it was purchased and used by people, I don't think that was the case.

Q. Did Navlet have any revenue streams, to your knowledge, on March 1st of 2000?

A. No, no.

Q. To your knowledge, has Navlet ever had any revenue streams?

A. It's. not in operation today.

Q. To your knowledge, while Navlet was in operation, did it ever have any revenue streams?

A. Not that I am aware of.

Q. So when MercExchange was contracting for a percentage or a share of the money earned by Navlet, pursuant to paragraph 3.2, did you understand that to be contracting for a share of anything?

A. Yeah. We had high hopes for it. I mean, we

* * * *

[179] there was a tight nexus between its commercial products and Mr. Woolston's patents, correct?

A. Yes.

Q. And on May 18th, 2000, you received this letter from William B. Porter alleging breach of the nexus requirement of the Leftbid.com license?

A. Yes.

Q. Okay. But you don't recall the basis for the assertion that the nexus requirement was breached?

MR. BRIGGS: Asked and answered.

Q. You can answer.

A. Presumably, the lawsuit would have defined that. I just don't, you know, I just don't have any—any further insight.

Q. I'd like to direct your attention to Exhibit 13, which was the Aden complaint vs. MercExchange.

A. Okay.

Q. I'd like to direct your attention to paragraph 9 on page 2. Did you ever read this complaint before it was filed in Nebraska District Court?

A. I don't believe I did.

Q. Do you recall if anyone from Aden read the complaint before it was filed in Nebraska District Court?

[180] A. I don't know.

Q. Were you familiar with the substance of the complaint before it was filed in Nebraska District Court?

A. I don't recall. I'm—

Q. Do you recall discussing the complaint with your attorneys prior to its filing?

A. This whole thing happened pretty quickly because we were—because we were in this dispute with Woolston.

Q. I direct your attention to paragraph 9 where it says, "The plaintiff contends that the primary purpose of plaintiff entering into the sale agreement was to enable it to obtain a share of any recovery the defendant had in connection with any patent infringement claims the defendant may have against third parties, including but not limited to the litigation contemplated in the enforcement agreement."

A. Right. I'm not sure what the sale agreement was, though, that we're referring to.

Q. Direct your attention back to the first page, paragraph 5—actually, paragraph-7—appears to be the agreement where Aden offered $4 million for a ten-percent ownership in MercExchange, do you see that?

* * * *

PATENT ENFORCEMENT AGREEMENT BY AND BETWEEN MERCEXCHANGE, L.L.C. AND ADEN ENTERPRISES, INC.

WHEREAS, MercExchange, LL.C. ("MercExchange") believes that it has claims arising under the patent laws of the United States against certain entities whose products and/or services infringe issued patents or granted patent applications ("the MercExchange Patents"); and

WHEREAS, Aden Enterprises, Inc. ("Aden") has acquired an inclusive license within a field of use under the MercExchange Patents, and certain additional license rights pursuant to an Option Agreement entered into as of January 7, 2000, by and between Aden and MercExchange; and

WHEREAS, Aden has an equity ownership interest in MercExchange pursuant to a Capital Common and Sale Agreement entered into as of Oct. 30, 1999 and

WHEREAS, MercExchange and Aden, therefore, have common, annual and substantial interests in the enforcement of the MercExchange Patents, and desire to enforce their respective rights against one or more Infringing Parties ("enforcement proceedings"), including any possible licensing settlement, compromise or litigating and

NOW, therefore, for good and valuable consideration, receipt of which is hereby acknowledged, MercExchange and Aden agree as follows

1. Unless otherwise agreed to in writing, the infringing party referred to herein, and the subject of the enforcement proceedings, is eBay, Inc. (the "Infringing Party"), a California corporation, currently in the business of conducting online auctions at www.ebay.com. This agreement does not apply to any other infringer, potential licensee or third party.

2. Aden and MercExchange hereby agree to share in the costs and expenses of any enforcement proceedings involving

the MercExchange Patents against the Infringing Party, with Aden paying nine-tenths (9/10ths) of those costs and expenses and MercExchange paying one-tenth (1/10th) of the costs and expenses, subject to the terms and conditions of a Representation Agreement entered into by and between Hunton & Williams, MercExchange and Aden, and attached hereto as Exhibit A.

3. Aden and MercExchange, consistent with their mutual interest in enforcing the MercExchange patents, agree to share in the proceeds of any recovery against the Infringing Party, whether by license, settlement, compromise, judgment, award or contract under the following schedule: Aden will receive 22% (twenty-two percent) of any recovery, but only after actual attorney's fees incurred in the enforcement proceedings are paid in full to counsel for MercExchange pursuant to the Representation Agreement (but before any "success factor" paid under that agreement), with MercExchange to receive the balance of any recovery, or 78% (seventy-eight percent) of the proceeds.

4. Aden agrees that MercExchange has the full and unilateral authority to settle or not settle any litigation that may form a part of the enforcement proceedings against the Infringing Party under this agreement. MercExchange, however, agrees to confer with Aden before entering into any settlement agreement.

5. Aden and MercExchange acknowledge that patent litigation can be an uncertain and time consuming endeavor, and there can be no assurance of a favorable outcome from any enforcement proceedings contemplated hereunder.

6. Aden and MercExchange further agree that the funds advanced under this agreement are unsecured and that any recovery can only come from the proceeds of the enforcement proceedings against the Infringing Party, and that no lien

against MercExchange or Aden, their members, officers or directors can arise from this agreement.

7. The parties further agree that any dispute that may arise from this agreement shall be subject to binding arbitration pursuant to the rules of the American Arbitration Association. Arbitration of any dispute arising hereunder shall be conducted at a mutually agreed upon location in Alexandria, Virginia.

???? This agreement is subject to the laws and jurisdiction of the Commonwealth of Virginia.

9. This Agreement may be executed in parts and via facsimile device.

Aden Enterprises, Inc.

/s/ Michael S. Luther
MICHAEL S. LUTHER
President and Chief Executive Officer

MercExchange, LLC

/s/ Thomas G. Woolston
THOMAS G. WOOLSTON
Managing Member

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action Number 2:01-CV-736

MERCEXCHANGE, LLC,

Plaintiff,

vs.

eBAY, INC., *et al.*,

Defendants.

DEPOSITION of MARK BORGI, taken by Defendant, at the Offices of Hunton & Williams, 200 Park Avenue, New York, New York, on Wednesday, June 26, 2002, commencing at 9:45 a.m., before Linda Fisher, a Certified Shorthand Reporter and notary public, within and for the State of New York.

* * * *

[102] that correct?

A My own recollection it's later than October, but if this is the date, this is the date. I did sign it on the spot, so to speak, yes.

Q So it's your recollection that Mr. Woolston, Mr. Luther, according to Mr. Bartlam were involved in a negotiation in coming up with this agreement?

A Yes.

MR. YOUNG: Objection; vague and speculation. You may answer.

Q To your knowledge, is that correct?

A Yes.

Q Did it concern you or anyone else at Leftbid that Mr. Woolston being the CTO of Leftbid and managing member of

MercExchange when he negotiated a license with Leftbid on behalf of MercExchange?

MR. YOUNG: Objection to form. You may answer.

A Can you just be a little clearer on what you want to ask me?

[103] MR. RIFFE: Can you reread that?

(Record read.)

MR. YOUNG: Same objection and speculation, but you may an answer.

A Yeah, I was very upset. Yeah.

Q How? Why, again—

A I was upset because I felt that there was no arm's length transactions between us, you know, and that this was a non-negotiable issue, so yeah, I was upset.

Q And "between us," you mean Leftbid and MercExchange?

A Exactly.

Q Do you know who wrote the original draft of this agreement, to your knowledge?

A No.

Q So you're not aware of any other changes that happened in this agreement prior to your seeing it?

A I saw this day late in the afternoon and that was it.

MR. RIFFE: Mark as Borghi Exhibit 5 a

* * * *

[113] Q Did you understand this section 1.2 after reading it required Leftbid to insure that the Internet auction products it developed employ the subject matter of the patent and applications licensed to Leftbid?

A No, I did—

MR. YOUNG: Objection, vague and lack of foundation, but you may answer.

A No, I did not.

Q Mr. Borghi I would direct your attention to Section 1.2. Section 1.2, for the record, states that "Leftbid shall use best efforts to develop Internet markets and auctions that employ the subject matter of the pending and issued subject patents for use in the field of use in the fine art sector." Do you see that?

A Yes, I do.

Q Did you understand this at the time you read this agreement?

A As I said, I started reading this and I was upset and I voiced my concerns.

Q Were you upset that Leftbid would be tied [114] to employing the subject matter of the pending or issued patents? Was that one of your concerns?

MR. YOUNG: Objection. Lack of foundation. You may answer.

A My objection was that even when you're dealing with your partners, Tom Woolston that there should be an arm's length transaction between these companies and I didn't feel that we're operating in that manner. That was my concern, not that this was a bad document or a good document, it was just that I didn't think it was professionally done, the way this was presented to me.

Q Okay, sure. I'll direct your attention to the next sentence in Section 1.2. It says that "Leftbid shall confer with MercExchange to assure a tight nexus between the commercial embodiments of the aforesaid Internet markets and auctions with the claims of the pending and issued subject patents." Did you understand that portion before you signed it?

A No, I did not.

Q Did you understand who at MercExchange

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff.

v.

eBAY INC., a Delaware Corporation, and
HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

PIERRE OMIDYAR AND EBAY INC.'S MEMORANDUM OF POINTS AND AUTHORITIES IN OPPOSITION TO MERCEXCHANGE'S MOTION FOR CONTEMPT

I. INTRODUCTION

In a further attempt to harass and intimidate high ranking executives of eBay Inc., plaintiff MercExchange has filed a motion to hold eBay and its founder and chairman, Pierre Omidyar, in contempt for allegedly failing to comply with a subpoena issued from the Northern District of California. MercExchange's motion should he denied for the following reasons:

- First, Mr. Omidyar conducted a reasonably diligent search for documents ***prior to the hearing on May 13, 2002***, and made all of his documents relating to eBay available for review and production by legal counsel. As a result of that search, counsel for eBay produced over 900 pages of documents - all before the May 13, 2002 hearing. In addition, after the Court entered its order on May 17, 2002 regarding the production of e-

mail, counsel for Mr. Omidyar and eBay also searched Mr. Omidyar's e-mail account and produced all responsive documents. Accordingly, Mr. Omidyar has fully complied with the subpoena.

- Second, the fact that the defendants did not produce any board minutes is not a basis for contempt. As counsel for defendants has explained to counsel for MercExchange, the board minutes are not responsive to the subpoena. The subpoena only required production of board minutes that refer to MercExchange, Thomas Woolston, or the Patents in Suit. The board minutes in Mr. Omidyar's possession did not contain the required reference and there was no obligation to produce them.

- Third, with respect to the ten privileged e-mails withheld from production, which relate to Mr. Omidyar's search for documents - an issue that even MercExchange must admit is not central to this case those documents are privileged as to eBay and eBay objected to their production. While this Court found that Mr. Omidyar waived any privilege he might have had over the documents, the Court order did not conclude that eBay had also waived its privilege, and eBay was justified in withholding the documents.

- Fourth, as the defendants have repeatedly asserted, this Court lacks jurisdiction to enforce the subpoena issued from the Northern District of California.

Accordingly, this Court should deny MercExchange the opportunity to further harass eBay's executives and deny the motion in its entirety.

II. STATEMENT OF FACTS AND PROCEDURAL HISTORY

Pierre Omidyar founded eBay Inc. years before MercExchange filed this action on September 26, 2001.

Although Mr. Omidyar remains eBay's chairman, he has not been an active employee of eBay since 2000 and has no operational responsibilities at eBay. Deposition Transcript of Pierre Omidyar, ("Omidyar Tr."), 10:16 - 22. A copy of the Omidyar Transcript was submitted as Exhibit C to MercExchange's Motion for Contempt. Moreover, he does not maintain an office at eBay's headquarters in San Jose, and an office in his home near Las Vegas is for eBay and non-eBay related matters. Omidyar Tr., 10:16-22.

In February 2002, MercExchange served over 100 requests for eBay to produce documents relating to this litigation. In response to the requests, eBay contacted Mr. Omidyar and obtained documents from Mr. Omidyar that he had received in his capacity as founder and chairman of eBay. Any documents that were located, responsive and not otherwise privileged were produced as part of eBay's document production.

eBay did not, however, obtain and produce one of Mr. Omidyar's personal documents specifically requested by MercExchange. In its document requests, MercExchange had asked for Mr. Omidyar's personal employment agreement with his prior employer, General Magic. In response to that request, eBay correctly stated that Mr. Omidyar's personal employment agreement with his prior employer was not within eBay's possession, custody or control.

Then, in late Much, MercExchange served a subpoena *duces tecum* on Mr. Omidyar. MercExchange claimed that its subpoena was necessary because eBay had stated that Mr. Omidyar's personal employment agreement with his prior employer was not within its possession, custody or control. Rather than serving a subpoena limited to the one irrelevant document that eBay could not produce, MercExchange served a subpoena with 14 broad requests that were duplicative of requests already served on eBay. This was an interesting position in light of the fact that only about a month earlier, counsel for MercExchange had asserted that MercExchanges

president, Thomas Woolston, was not subject to discovery under Rule 45 and only agreed to produce documents in Mr. Woolston's possession pursuant to Rule 34 of the Federal Rules of Civil Procedure. A true and correct copy of Mr. Woolston's Objections to the Subpoena *Duces Tecum* Served by the Defendants is attached to the Declaration of Steven Zahn ("Zahn Declaration") filed concurrently herewith as Exhibit A. Nevertheless, Mr. Omidyar searched for responsive documents and produced them to MercExchange.

In May, MercExchange filed a motion to compel production of documents from Mr. Omidyar. By the date of the hearing, May 13, 2002, Mr. Omidyar had fully complied with the subpoena. As counsel for MercExchange has admitted, Mr. Omidyar produced approximately 900 pages of documents in response to the subpoena. Omidyar Tr., 69:14-15. At his deposition, Mr. Omidyar explained the process used to collect and produce the documents. Mr. Omidyar and his assistants identified any documents relating to eBay --- not just the categories mentioned in the subpoena and made those documents available to his counsel and counsel for eBay.

1. Mr. Omidyar Conducted A Diligent Search for Documents.

A Rule 45 subpoena requires a witness to conduct a reasonably diligent search for responsive documents. Here, there is no dispute regarding Mr. Omidyar's search for responsive documents. During his deposition, Mr. Omidyar testified as follows:

> By Mr. Robertson:
>
> Q: Let me ask you this. Physically, where did you search for the responsive documents?
>
> Mr. Randall:
>
> Objection. Assumes facts not in evidence. Also, I will again caution you not to reveal any privileged

communications.

The Witness:

A: Uh-huh. The small quantity of eBay-related documents that are not at eBay, in other words, that are in my office, ***I asked my assistant to go through those files and retrieve anything that was eBay related.***

By Mr. Robertson:

Q: What files do you have in your office"?

A: I have files of -- as far as - you're talking about --- you're asking about eBay-related files?

Q: I'm talking about the documents responsive to the subpoena.

A: I'm not certain if I had any documents that might have been responsive to the subpoena because I'm not - because whether something is responsive or not seems more of a technical legal matter. ***so my goal was to produce anything that might be potentially responsive to our legal team and let them figure out what the deal is.***

Omidyar Tr., at 37-38 (emphasis added). Mr. Omidyar further testified:

Q: How do you know that you complied with the subpoena if you assumed that people were collecting responsive documents?

A: You know, I directed folks to produce anything that was related to eBay to the legal team, for them to—for them to work through and figure out what was responsive or not.

All of my documents were made available and there you go.

Q: Do you know whether or not you made [your

laptop and desktop computers] available to determine whether or not there were any responsive documents in the electronic format?

A: All of those meaning laptops or the desktops?

Q: Any personal computer that you used that might contain responsive documents.

A: Right. I actually – the laptops that I use and the desktop that I use in Henderson I searched through to see if there was anything that was related to eBay that, you know ought to be produced.

Omidyar Tr., 45-47. Accordingly, Mr. Omidyar complied with the subpoena and conducted a diligent search for documents.

In fact, MercExchange ***never*** contends otherwise. In its motion for contempt, MercExchange does not argue that Mr. Omidyar failed to conduct a diligent search for documents and admits that Mr. Omidyar produced approximately 900 pages of documents ***before the May 13, 2002 hearing on the motion to compel.*** See MercExchange Motion for Contempt and Omidyar Tr., 69:14-15. The basis for MercExchange's motion is that Mr. Omidyar did not conduct ***another*** search after the production of those documents and after the hearing on May 13, 2002.* However, the May 17, 2002 order did not find that Mr. Omidyar had not already conducted a diligent search and did not require that Mr. Omidyar conduct a third search for documents. Accordingly, MercExchange's argument that a further search was ***implied*** in the order cannot form the basis for a contempt finding. *See In re General Motors Corp.*, 61 F.3d 256, 258 (4th Cir. 1995) (holding that contempt is appropriate only for the violation of an

---

* An additional search would have been the third by Mr. Omidyar, who searched for documents responsive to MercExchange's document requests to eBay and for documents responsive to the subpoena.

"unequivocal command.") *see also Project B.A.S.I.C* v. *Kemp*, 947 F.2d 11, 16 (1st Cir. 1991) ("Civil contempt will lie only if the putative contemnor has violated an order that is clear and unambiguous.").

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

CIVIL ACTION NO. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., *et al.*,
Defendants.

MARKMAN HEARING

Norfolk, Virginia

July 30, 2002

Day 1A

BEFORE: THE HONORABLE JEROME B. FRIEDMAN
United States District Judge

[43] for his patent application. And the way Onsale started out is very different than a person-to-person auction which is really the model that eBay has; that is, individual sellers can sell through the eBay service to individual buyers. Onsale started out and it had six merchants. And, for example, it had a vintage watch merchant, and it would have these merchants who' would provide their inventory and they would sell the goods to potential buyers over the Internet.

When asked whether or not they had accounts for these sellers, well, they said, of course, they invoiced them at the end of the month. One of the founders said I would send them a bill and they would pay me 30 days out. They were—they started competing with eBay in I believe November of 1995.

By November of 1997, eBay really won the day because eBay had adopted the person-to-person model whereas Onsale had to go out and find more merchants to supply them with their inventory.

What Onsale then did was, quite frankly, they copied the eBay model and they went selling person to person. When they did that, they suddenly had a problem. You can't invoice thousands or tens of thousands what quickly became hundreds of thousands of potential sellers without automated processes. Automated processes to initiate the auction; automated processes to schedule the auction; automated processes to get your fees; automated processes to permit you to scale [44] massively to size, to go to that kind of person-to-person individual network which *was* so critical to the success of eBay and anticipated and disclose by my client back in April of 1995.

At that point, they said in November of 1997, they realized they needed seller accounts, they needed them to be supported by credit cards, for example. By having them providing credit cards, they had a trust that was imported in the system.

Could I have 404, please. They avoided the delay and expense of manual processing for collecting seller fees. What eBay first started out Your Honor needs to know, they didn't even require payment for sellers to sell on eBay. It wasn't until I believe February of 1996 that they started requiring payments, and all they would do then is invoice you and hope that the payment would arrive. Sometimes it did, sometimes it didn't. Suddenly it became apparent to eBay years later that they needed to start adopting seller accounts so that they would not be, in the words of the founder, burned by sellers.

The other thing that a seller's account as afforded by a financial instrument is to promote efficiency. When the auction has your credit card or debit card, for example, it can simply create an automated record, debit your account, and then later on charge your credit card. So the auction system

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

[Filed Oct. 18, 2002]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC., *et al.*,

Defendants.

ORDER AND OPINION

On July 30 and 31, 2002, the court conducted a *Markman* hearing for the purpose of construing the claims in the plaintiffs three patents at issue. After careful consideration of the briefs submitted by the parties, and the argument of counsel at the hearing, the court issues this Order and Opinion detailing the claims constructions and reasons therewith.

I. Factual and Procedural Background

On September 26, 2001, MercExchange, L.L.C. ("plaintiff") brought the instant action alleging patent infringement in violation of the federal patent laws of the United States, 35 U.S.C. § 271, *et seq.* In its Complaint, plaintiff alleges that eBay, Inc., Half.com and ReturnBuy (collectively "defendants") have infringed upon three patents: U.S. Patent No. 6,202,051 ("the '051 patent") entitled "Facilitating Internet Commerce Through Internetworked Auctions;" U.S. Patent No. 6,085,176 ("the '176 patent") entitled "Method and Apparatus for Using Search Agents to Search Plurality of

Markets for Items;" and U.S. Patent No. 5,845,265 ("the '265 patent') entitled "Consignment Nodes," (collectively "patents at issue"). An Amended Complaint was filed on December 7, 2001; however, the parties and patents at issue remain the same.

On March 13, 2001, the '051 patent was duly and legally issued to the inventor, Thomas

* * * *

This conclusion is further supported by the language of claim 52.[2] The preamble to claim 52 similarly reads [a]n automated method, performed by a computer-based auction system." *Id.* at col. 26, 11, 23-24. In some steps of this claim, the limitation "automatically" appears, indicating that the particular step is to occur automatically. *See e.g., id.* at col. 26, 1, 55 ("automatically auctioning the item for auction . . ."); *id.* at col. 26, 1. 61 ("automatically calculating a seller's commission . . ."); *id.* at col. 26, 1. 63 ("automatically charging the seller . . ."). Therefore, based on this claim, the term "automated method" in the preamble does not add any further limitation to the claim. The same rationale holds true for claim 1. Therefore, the term "automated method performed by a computer-based auction system" does not require that all steps of claim 1 are automatically performed via an automated process.

2. *Auction*

The plaintiff strenuously argues that there is no need to deviate from the ordinary and accustomed meaning of the term auction; a jury can understand what an auction is without further clarification from the court. The defendant, on the other hand, feels that the term must be construed by the court

---

[2] The court is aware that each independent claim is to be read without reference to other claims; however, review of this claim provides the court some guidance on the issue.

because the plaintiff limited it through his written disclosure prosecution history.

As the court must do with all claim constructions, it initially gives the term auction its ordinary and accustomed meaning. The plaintiff argues that this meaning is a process where participants can bid on an item. The court accepts this as the ordinary meaning. Next, the court looks to the specification and the prosecution history to determine if the inventor has exhibited an intent to deviate from the ordinary meaning. The main contention here is whether the inventor required that an auction must occur over a "trusted network" The defendant spends considerable time on this point, addressing numerous instances in the specification and prosecution history where the inventor said the benefit of his invention was that it was a trusted network to prevent fraud and create the ability to speculate. For example, the defendant points to the following portions of the specification which it argues serve to limit the claim to one that occurs over a' trusted network:

- To establish a low cost means for a used good and/or consignment stores to establish a "trusted" computerized market for used and collectible goods. '051 patent, col 1, II 40-42
- [T]o provide a trusted network of consignment nodes that act as brokers to provide a means to electronically present a used good or collectable[3] to an electronic market. *Id.* at col. 2, II, 12-14.
- All consignment node users or operators, hereinafter users, are "trusted" licensees or franchisers of the software and hardware necessary to create and operate a consignment node. *Id* at col. 2, II, 35-38.

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[3] The inventor uses collectible and collectable interchangeably throughout the patents at issue.

- And local collector's may economically participate in the collectable markets by using local access to a convenient consignment node "trusted" bailee, and electronically presenting collectable goods to an electronic market. *Id.*, at col. 3, II, 4-8.

- [W]hile providing a trusted means to assure potential buyers of the good's bona fide availability and legal title. *Id.* at col. 3, II, 49-50.

- Each consignment node user may be a franchisee of a central franchiser and the franchiser may police the network to give quality control, detect fraud and revoke the franchises or licenses of poor quality consignment node users. Thus, the consignment node is a "trusted" network . . . *Id.* at col. II, 55-58.

- This frame work of trusted franchisee, high confidence and accurate market database, and the legal finality of the transaction, where the legal transaction/"cash" clearing function is performed by the market maker computer, e.g., the participant credit card number or other payment means is only revealed and brokered by the market maker computer 800, is a massive step toward building confidence and trust between a small collectable merchant and participant with electronic transactions. *Id.* at col. 18, II, 47-56.

As the defendant has pointed out, through these and other examples in the specification, the inventor did not disclose a person-to-person transaction. Everything disclosed in the '051 patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment The Federal Circuit has repeatedly held that "when the

'preferred embodiment' is described as the invention itself the claims are not entitled to a broader scope than that embodiment." *SciMed*, 242 F.3d at 1341 (Fed. Cir. 2001) (quoting *Wang Labs.*, 197 F3d at 1383). Furthermore, "[w]here the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, read without reference to the specification, might be considered broad enough to encompass the feature in question." *Id.* In this case, the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary. As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification. Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

In addition to the trusted network portion of the construction of the term auction, the defendant seeks additional language which reads as follows:

* * * *

> processing a purchase request from said purchaser, a database means for storing and tracking said data record of said good for sale, a communications means for communicating with said system to accept said data record of said good and a payment means for transferring funds to a user of said system, said system comprising
>
> > a digital image means for creating a digital image of a good for sale;
> >
> > a user interface for receiving textual information from a user;
> >
> > a bar code scanner;
> >
> > a bar code printer;

a storage device;

a communications means for communicating with the market; and

a computer locally connected to said digital image means, said user interface, said bar code scanner, said bar code printer; said storage device and said communications means, said computer adapted to receive said digital image means of said good for sale from said digital image means, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said data record to the market for goods via said communications means and receive a tracking number for said good for sale from the market for goods via said communication means, stare said tracking number from the market for goods in said data record on said storage device and printing a bar code from said tracking number on said bar code printer.

'265 patent, col. 20, II, 23-59.

1. *Market for goods* [11]

The plaintiff asks this court to apply the ordinary and accustomed meaning to this terms and simply read it to the jury. Alternatively, the plaintiff suggests that the term should be defined as a place where items or goods maybe bought and sold (e.g., here, through a wide area communication network such as the intend). The defendants object to this proposed construction and suggest the following instead: a trusted network where movable personal property is bought and sold.

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[11] The defendants group this term with the term "market apparatus" from claim 8.

The main dispute between the parties involves the busted network argument which the court has addressed in the other two patents at issue in this case.[12] As the court has held, the inventor envisioned a trusted network to avoid the problems of early Internet transactions. The trusted aspect of his invention was not merely a preferred embodiment, as the plaintiff argues, it was the focus of his invention. As the Federal Circuit has held, "when the 'preferred embodiment' is desciribed as the invention itself, the claims are not entitled to a broader scope than that embodiment." *SciMed Life Sys.*, 242 F.3d at 1341 (quoting *Wang Labs.*, 197 F.3d at 1383). Therefore, for the reasons stated above, the court finds that the market for goods is a trusted network where items or goods may be bought and sold.

2. *Payment clearing means for processing a purchase request from said purchase*

The plaintiff seeks to define this terra as a computer system that accepts electronic payment information from a participant, such as a credit card number, a-money or a debit account number and clears the payment by charging the credit card number, c-money or debit account number via an interface to an external clearing network or debits the payment account amount from an account that is accessible by the system, and any structural equivalents thereat The defendants, on the other hand, seek the following definition:

> This limitation covers the following disclosed structures, and equivalents thereof, for processing a purchase request fro the purchaser: a general purpose computer programmed to perform, steps 268, 270 of Fig. 4, or a general purpose computer programmed to perform steps 402-408 of Fig. 7, or a transaction processor 812, as in

[12] The specification for the '265 patent is essentially the same as that for the '051 and '176 patents, as all three patents arose from the same original application.

> Fig. 12, or a computer with a clear accounts module 825 as in Fig. 12. Such processing must be capable of receiving a purchase request and payment from a participant, clearing the purchase request and payment, and if the payment clears, then transferring the ownership of the good for sale by modifying the data record of the good to reflect the new ownership of the good.

Deft.' Opening Br., Dkt. 159.

As this is a means-plus-function element, the court must first look to whether this falls under section 112 paragraph 6. Because the word "means" is present, there is a rebuttable

* * * *

request. The cited portions of the specification above fully support this interpretation. Therefore, the court adopts the plaintiff's proposed definition for this term.

- **If said payment means clears then transfer the ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant**

This term also refers back to the same clause of claim 8 involving the functions of the transaction processor. However, with respect to this term, the defendants' proposed definition is correct. The defendants argue that this claim means that if the payment made by a participant for a good for sale clears, then the legal ownership of the good is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner of the good. The plaintiff, on the other hand, states that this claim simply means to record the new owner of the good. However, based on the claim language itself, the specification, and the prosecution history of the inventor's

patents, it is clear to the court that legal ownership of the good is transferred once the payment means clears.

The claim language states that the transaction processor "transfer[s] the ownership of said good for sale." It does not merely say that it records a new owner. While the language continues by saying this transfer of ownership is accomplished by "modifying said data record," the claim is not limited to merely modifying the record – legal ownership must be transferred. Furthermore, the specification discusses the transfer of ownership or legal title in numerous places. See e.g., '265 patent, col. 12, IL, 42-48 ("After the transaction clears the charge 404, the consignment node credits the consignment node users commission account 406 to extract the consignment node transaction fee. The consignment node then transfers legal ownership 408 of the good by changing the ownership entry in the data record in the consignment node of the good."); id. at col. 18, IL, 27-37 ("The procedures, when used in conjunction with the rules and procedures imposed on the posting terminal user through a franchising or licensing legal framework assure that (1) when a record of a good is found on the market maker computer 800 by a participant 900 or another retailer 902, it is in fact for sale and is in the physical and legal possession of a 'trusted' franchise and (2) that when a bona fide purchase price is tendered by a participant 900 or another retailer 902 the legal title to a good as represented by the record will transfer to the buyer with an immediate or nearly immediate finality to the transaction."); id. at col. 19, IL 11-13 ("The third function is to provide means to process transactions from participants by clearing a transaction and transferring legal title to a good.").

Finally, in the prosecution history of the investor's patents, the inventor stated, on more than one occasion, that "[t]he market maker computer completes transactions having the effect of immediately changing legal ownership of the used or

collectible for sale when the payment is approved by the market maker computer in processing payment, and updates the database and the data record for the used or collectible good for sale." Defs.' Opening Br., Ex. Q, p. BD0012593 (Applicant's Brief Under 37 CFR § 1.192). Therefore, based on the intrinsic evidence, the court adopts the defendants' proposed definition for this claim term; specifically, if the payment made by a participant for a good for sale clears, then the legal ownership of the good is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner of the good.

- **Said notification means notifying the posting terminal apparatus in response to said transaction processor transferring ownership of said good for sale denoting with a finality of transaction said new ownership of said good**

The final claim term in dispute in claim 8 is a means-plus-function claim. Therefore, the court most first determine if this term falls under the purview of section 112, paragraph 6. As the

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01cv736

MERCEXCHANGE, LLC,

Plaintiff,

v.

eBAY, INC., *et al.*,

Defendant.

HEARING ON MOTIONS

Norfolk, Virginia
November 13, 2002

Before HONORABLE JAMES E. BRADBERRY
United States Magistrate Judge.

* * * *

[69] documents is, number one, he just doesn't have documents relating to the plaintiff or Mr. Woolston or the patents-in-suit; number two, he left all of his eBay documents at eBay and had been gone for three years in an inactive state.

THE COURT: This is not an older gentleman, as I recall. This is a guy in his forties, isn't he?

MR. RANDALL: Yes, I think he's probably in his early forties.

MR. STILLMAN: Thirties.

MR. RANDALL: Thirties?

THE COURT: He's in his thirties?

MR. RANDALL: Okay.

THE COURT: This is a guy with a reasonably well-developed intellect who put together a corporation that's been extremely successful, and he's now out of the corporation, but he's still chairman of the board, as I understand. He's just enjoying a comfortable life because he's made a small fortune—made a large fortune, frankly, in the development of this company.

I can't help but wonder, Mr. Randall, when I read the excerpts of the transcript of Mr. Omidyar, how much more useful it may have been to all of us if that deposition of Mr. Omidyar had not been repeatedly interrupted with objections that were simply irrelevant; there were objections that strike me as being [70] intended to either give him an answer or signal something to him that he ought to do in the course of that deposition, instead of simply letting him respond to the deposition, particularly since he's the man that created that corporation.

So on this particular issue, I'm not sure where we stand, except that one of the things I have decided—had decided was that it was necessary to take another deposition of Mr. Omidyar because of the fact that the plaintiff's opportunity to reasonably depose him was interfered with, and I consider it to be materially interfered with. I'll give the plaintiffs that opportunity and the opportunity to explore with him whether or not there are any other documents that he has.

I will accept, at face value, he may not have carried any documents with him and he may not have had anything to do in the last three to four years, and he may not be intimately involved, but I'll guarantee he's got a good enough intellect to have a pretty good idea of documents, and so forth, that were requested and he can answer with regard to each one of those.

Now, Mr. Omidyar is not a party to this action, and I have some deference for people who are not parties to the suit, but I have less deference when their nonparticipation in the suit is further adversely affected by one of the counsel in the suit, and I was deadly serious in what I said.

[71] If I had been dealing with this deposition or had been dealing at the time that it was taking place and knew the objections that were being filed, I'm deadly serious, I would've called your office and said, "Get associate counsel and get then out here not because Mr. Randall is not going to take anymore of this deposition."

You need to understand, I litigated for twenty-five years. I did all sorts of litigation. I litigated in federal court as well as state court. I think that defense counsel, like plaintiff's counsel, have enormous discretion and freedom in what they are able to do in the course of advising their client and representing their client at trial, but you reach a point when you go across the line. You crossed the line on Omidyar. Without question, you crossed the line. And if is unconscionable to interpose the kind of objections that you interposed, which were absolutely unfounded, in an effort to skew how that deposition come off.

So I don't want you to think for a moment that I take this motion for the contempt lightly. I do not.

MR. RANDALL: I understand that, Your Honor, and it was not my intent—

THE COURT: I—

MR. RANDALL: —to obstruct the deposition. It was my intent simply to preserve objections that I thought were appropriate. For instance, Mr. Robertson raised one—

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY, INC., a Delaware Corporation, HALF.COM, INC., a Pennsylvania Corporation, AND RETURNBUY, INC., a Delaware Corporation

Defendants.

EBAY INC.'S MEMORANDUM IN SUPPORT OF EBAY'S POST-*MARKMAN* MOTION FOR SUMMARY JUDGMENT OF NONINFRINGEMENT AND UNENFORCEABILITY OF U.S. PATENT No. 6,202,051.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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5. Mr. Phillips received two copies of Examiner Kemper's rejection, discussed it with her, confirmed that the prior art had not been cited in the '051 application, and made a deliberate decision not to disclose it. 11

6. When Burns Doane (again) raised the issue, Phillips admittedly made a deliberate decision to withhold the information 14

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2. The withheld information was highly material as a matter of law 19

3. The Court should infer intent to deceive under established law, and MercExchange cannot offer any contradictory evidence. 21

D. The balancing test requires summary judgment of inequitable conduct. 28

IV. CONCLUSION. 28

* * * *

INTRODUCTION

The Court's October 21, 2002 summary judgment order, which held that the debiting element of the '051 claims is not supported by the '051 patent specification, has eliminated any need for a trial on the '051 patent. All of the '051 patent claims have the debiting element. MercExchange moved for reconsideration, mischaracterizing the Court's order, and incorrectly arguing that the Court, despite its exhaustive consideration of the evidence and arguments, did not read, or understand, MerCExchange's papers. In addition, Mr. Woolston announced to the media, and MercExchange argued to Judge Bradberry, that the Court must hold a trial on the '051 patent anyway, even if it denies the motion for reconsideration.

eBay has filed a separate opposition to MercExchange's motion for reconsideration. In the meantime, in view of MercExchange's insistence that the parties must continue to litigate the '051 patent, and in light of the Court's recent *Markman* ruling, eBay respectfully requests the Court enter summary judgment of '051 noninfringement and unenforceability for the following reasons:

- First, as the Court held at *Markman*, the '051 patent claims cover only a system with a trusted intermediary, and do not cover a person-to-person model. Because eBay indisputably operates a person-to-person system, summary judgment of noninfringement is appropriate.
- Second, summary judgment of unenforceability due to inequitable conduct is also appropriate. The underlying factual issues are not in dispute, and Federal Circuit authority infers intent to deceive under certain circumstances, which are present here. As a matter of law, MercExchange has no admissible

> evidence to challenge eBay's request for summary judgment. Thus, summary judgment of unenforceability is appropriate.

eBay recognizes that the Court has already spent an enormous amount of time and effort on this case. Nonetheless, eBay respectfully suggests that before the parties turn their attention to the remaining two patents, the Court should enter summary judgment of '051 patent noninfringement and unenforceability, so that the parties, and any reviewing court, have a fully-developed record.[1]

Pursuant to Local Rule 56(B), eBay submits herewith a separate statement of undisputed facts.

II. SUMMARY JUDGMENT OF NONINFRINGEMENT OF EVERY '051 PATENT CLAIM.

A. Summary judgment standard.

The Court has already set forth the general summary judgment standard in its October 21, 2002 order. To prove infringement, a patentee must show that an accused method meets every limitation of the asserted claims. If even one limitation is missing, infringement cannot exist as a matter of law and summary judgment is appropriate. *Bell A 11. Network Servs., Inc. v. Covad Communications Group, Inc.*, 262 F.3d 1258, 1279 (Fed. Cir. 2001); *Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1211 (Fed. Cir. 1998).

B. The '051 claims, as construed by the Court, exclude a person-to-person system.

As the Court held, after exhaustively reviewing the '051 specification, "the inventor did not disclose a person-to-person transaction." (*Markman* Order and Opinion (Oct. 18, 2002) at 12.) The Court stated, in construing the auction term:

---

[1] Summary adjudication of these issues now will also assist the Court in resolving the parties' 35 U.S.C. §285 requests.

> Everything disclosed in the '051 patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment. . . . In this case, *the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary.* As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification. Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

(*Id.* (emphasis added)). As set forth below, eBay indisputably does not practice this element.

C. eBay indisputably operates a person-to-person system, and thus does not practice '051 claims as construed by the Court.

eBay indisputably operates a person-to-person system, not the trusted intermediary of the '051 patent, and thus does *not* practice the '051 patent claims. As eBay's CEO, Meg Whitman, explained at her deposition, eBay is "an environment where buyers and sellers can connect to do business." McFarland Decl. Ex. I (Whitman TR 30:8-12. *See also* Whitman TR 53:10-19). Rather than adopt the trusted intermediary philosophy embraced by the '051 patent, eBay took the *opposite* approach, and designed a person-to-person system:

> We have a philosophy which was in place from the beginning that will sound I think somewhat naive to perhaps lawyers, but we actually believe that people are basically good, that 99.9 percent of people want to do the right thing. . . And so what you try to do is to make the smallest number of rules that you can and get out of the way.

McFarland Decl. Ex. 1 (Whitman TR 114:13-22).

Thus, as eBay's User Agreement emphasizes, eBay is *not involved* in the transaction between the buyer and the seller, and has no control over the quality of the items listed, the truth of the listing, or even whether the buyer or seller will actually complete the transaction:

> Although we are commonly referred to as an online auction web site, it is important to realize that we are not a traditional "auctioneer." Instead, our site acts as a venue to allow anyone to offer, sell, and buy just about anything, at anytime, from anywhere, in a variety of pricing formats. . . . *We are not involved in the actual transaction between buyers and sellers. As a result, we have no control over the quality, safety or legality of the items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to buy items. We cannot ensure that a buyer or seller will actually complete a transaction.*

McFarland Dec. Ex. 2 (eBay User Agreement ¶13.1 (emphasis added)).

In addition, the Courts have recognized that eBay is a person-to-person system, which does not control, and is not responsible for, the postings on its web-site. *See Gentry v. eBay, Inc.*, 99 Cal.App.4th 816 (Cal. App. 2001) (dismissing, as a matter of law, a complaint by a purchaser of counterfeit sports memorabilia using the eBay site). The *Gentry* court emphasized that eBay is a person-to-person system which, unlike the intermediary of the '051 patent, does not control the conduct of eBay users:

> [I]t was dealers Fitzgerald and Scheinman, not eBay, who chose their own category description for the item offered for sale. . . [W]e consider it was the individual defendants who falsely identified the product as authentically autographed in order to place their items on eBay for sale. . . .

> This claim seeks to hold eBay responsible for having notice of illegal activities conducted by others on its Web site, and for electing not to take action against those third parties, including by withdrawing or somehow altering the content placed by them. . . . Such claims have been uniformly rejected by the courts that have considered them.

Gentry, 99 Cal.App.4th at 832, 835.

Furthermore, eBay's SEC filings, which MercExchange has cited at length, explain that eBay "pioneered online person-to-person trading by developing a global online trading platform that helps practically anyone buy or sell practically anything," and note that eBay bears the risks of a person-to-person system:

> Our business may be harmed by the listing or sale by our users of illegal items . . . Our business may be harmed by the listing or sale by our users of pirated or counterfeit items . . . .
>
> Our business may be harmed by fraudulent activities on our websites
>
> Our future success will depend largely upon sellers reliably delivering and accurately representing their listed goods and buyers paying the agreed purchase price. We have received in the past, and anticipate that we will receive in the future, communications from users who did not receive the purchase price or the goods that were to have been exchanged. In some cases individuals have been arrested and convicted for fraudulent activities using our websites. While we can suspend the accounts of users who fail to fulfill their delivery obligations to other users, *we do not have the ability to require users to make payments or deliver goods or otherwise make users whole other than through our limited reimbursement program*. Other than through this program, we do

> not compensate users who believe they have been defrauded by other users. We also periodically receive complaints from buyers as to the quality of the goods purchased.

McFarland Dec. Ex. 3 (eBay Form 10-Q, p,. 26 (Nov. 14, 2001) (emphasis added)). These, of course, are the risks that the '051 patent purports to avoid.

MercExchange's own proposed expert, Dr. Weaver, has opined that eBay is a "person-to-person" system. McFarland Dec. Ex. 4 (Excerpts of the Expert Report of Dr. Weaver (6/10/02)). Moreover, the baseball-card "demonstration" performed by MercExchange's proposed experts, Dr. Weaver and Dr. Palmer, shows that eBay is a person-to-person system.

First, Dr. Weaver, playing the "seller," did not use his own name and address, but instead registered using his mother's information. *Id.* at 35, 38-40. Neither eBay nor other eBay users knew who the seller was, much less that he was operating under another person's name.

Second, Dr. Weaver provided his own description of a baseball card he wished to sell using his mother's name and address. *Id.* at 43-44 ("Decent condition Frank Robinson 1967 Topps # 100 Baseball Card. Card has rough edges but is now in protective packaging. Buyer pays shipping of $2.00 to United States only."). Again, neither eBay nor other eBay users knew whether Dr. Weaver actually possessed, owned, or had the right to sell, the baseball card; much less knew whether his description of the card was accurate.

Third, although Dr. Palmer placed the highest bid on the card, nothing in either expert report indicates that Dr. Weaver delivered the card to Dr. Palmer. *Id.* Nothing in either expert report indicates that Dr. Palmer sent payment to Dr. Weaver for the card. eBay has no idea whether the buyer and seller actually consummated the transaction.

Thus, the Weaver/Palmer "demonstration" had none of the hallmarks of the '051 patent intermediary. Instead, the demonstration illustrated a person-to-person system, which is the opposite of what the '051 patent describes. eBay is indisputably a person-to-person system, excluded by the Court's construction of the '051 patent claims. Summary judgment of noninfringement is therefore appropriate.

III. SUMMARY JUDGMENT OF '051 PATENT UNENFORCEABILITY.

A. Summary judgment standard.

An applicant who fails to comply with his duty of disclosure commits inequitable conduct, rendering any ensuing patent unenforceable, if material "information was withheld with intent to deceive the PTO." *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268, 1273 (Fed. Cir. 2001). "The defense of inequitable conduct in a patent suit, being entirely equitable in nature, is not an issue for a jury to decide." *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 1190 (Fed. Cir. 1993). Thus, "[a] determination of inequitable conduct is committed to a district court's discretion." *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1255 (Fed. Cir. 1997).

B. Factual background.

1. After the PTO rejected all of the '051 patent claims, Mr. Woolston and Mr. Phillips added the "seller's account" feature.

In early 2000, the PTO withdrew the notice of allowance for Mr. Woolston's '051 patent claims after the Examiner, Ms. Smith, discovered prior art showing a trusted intermediary for online auctions in Amy Sharp, *From Army Knives to Gold Coins, Collectors Attend 'On-line' Auctions*, Memphis Business Journal, July 28, 1986. *See* McFarland Decl. Ex. 5 ('021 Appn., June 2, 2000 Office Action at 2). Examiner

Smith rejected all of Mr. Woolston's Internet auction claims, correctly recognizing that they were obvious in view of Army Knives, as well as two other Internet auction references: (1) Save the Earth Foundation: Internet Online Rock and Roll Art Auction; and (2) Computer Museum Holds An Internet Auction. *See Id.* Examiner Smith noted, for example:

> Save the Earth discloses an internet auction wherein items are presented to be

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

CIVIL ACTION NO. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., HALF.COM, INC.,
AND RETURNBUY, INC.,

Defendants.

DEFENDANTS' OPPOSITION TO MERCEXCHANGE'S MOTION TO STRIKE/DISQUALIFY, FILED OCTOBER 18, 2002, AND SERVED NOVEMBER 20, 2002.

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT - FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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	B. Mr. Gholz consulted for a few hours with Mr. Woolston about his efforts to attack PriceLine's "name-your-own-price" patent, and urged Woolston to stop claiming things he did not invent.	3
	C. Mr. Woolston and Mr. Phillips turned their attention to eBay, added the "seller's account" claims in two other patent applications, and committed inequitable conduct.	5
	D. MercExchange consented to eBay's selection of Commissioner Mossinghoff, who is not a practicing attorney, but is a nationally-regarded Professor, lecturer, and respected Patent Law authority	6
	E. Commissioner Mossinghoff offered his expert opinion regarding the duty of disclosure, patent law procedures, and the fact that Mr. Phillips committed inequitable conduct	8
	F. After Commissioner Mossinghoff offered his expert opinion, MercExchange harassed and attempted to deceive him.	9

G. MercExchange threatened Commissioner Mossinghoff's employer with disciplinary action and public disparagement, and attempted to hide its threats from eBay and the Court. 10

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A. MercExchange asks the Court to create an unprecedented and unjustified "vicarious" disqualification theory 12

1. Attorney disqualification under Virginia Rule 1.9(a) and 1.10 does not apply because Commissioner Mossinghoff is an expert, subject to full discovery, and is not shielded by the privilege 13

2 Mr. Gholz's limited contact with Woolston is substantially unrelated to Commissioner Mossinghoff's role in this case . 16

3. Mr. Woolston's manufactured and hypocritical sense of "betrayal" is unfounded and legally irrelevant 20

4. W.R. Grace, in which a single attorney switched sides in the midst of a litigation, does not support disqualification 22

5. The expert disqualification cases, including Wang, undermine Merc-Exchange's motion 23

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D. MercExchange's Motion to "Strike" Dr. Shamos' report is frivolous: The Court has twice rejected MercExchange's "delay and prejudice" arguments against eBay's inequitable conduct defense 26

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* * * *

exchanged expert lists under the Protective Order, enabling each side to check for possible conflicts, and raise any appropriate objection. eBay and the other defendants identified experts and consultants, including Commissioner Mossinghoff, on March 29, 2002. (McFarland Decl. Ex. L). eBay identified Commissioner Mossinghoff as an employee of the Oblon firm. (*Id.*) MercExchange did not object.

On May 16, 2002, eBay provided MercExchange with Commissioner Mossinghoff s C.V. and signed undertaking under the Protective Order, again identifying Commissioner Mossinghoff's relationship with the Oblon firm. (McFarland Decl. Ex. M). That day, MercExchange reviewed the list and belatedly objected to one of eBay's experts, Dr. David Reiley, on conflict grounds. (McFarland Decl. Ex. N). With the date for serving opening expert reports rapidly approaching, eBay took MercExchange at its word, and ceased communicating with Dr. Reiley. On June 5, 2002, after defendants identified two other consultants, MercExchange asked for additional information so that it could "determine whether eBay's retention of these individuals would present a conflict." (McFarland Decl. Ex. 0). MercExchange completed its conflict review, and *never* raised an objection to Commissioner Mossinghoff.

E. Commissioner Mossinghoff offered his expert opinion regarding the duty of disclosure, patent law procedures, and the fact that Mr. Phillips committed inequitable conduct.

eBay uncovered the inequitable conduct of Mr. Phillips and Mr. Woolston, confirmed it at the Court-ordered July deposition of Mr. Phillips, and moved for leave to assert the defense. (*See* eBay's Motion for Leave to Amend (July 23, 2002)). eBay moved as quickly as it could under the circumstances to present expert reports on inequitable conduct, even

before the Court decided eBay's motion for leave to amend. eBay served the supplemental expert report of Dr. Keller, an e-commerce expert who addressed technical issues relating to the inequitable conduct defense, on August 30, 2002. eBay served the inequitable conduct expert reports of Dr. Shamos, another e-commerce expert, and Commissioner Mossinghoff, a patent law expert, on September 23, 2002 and September 20, 2002, respectively. The Court granted eBay leave to amend on October 21, 2002.

The scope of Commissioner Mossinghoff's testimony in this case is narrow and specific. Commissioner Mossinghoff is *not* an e-commerce expert. Commissioner Mossinghoff is not offering any opinion regarding MercExchange's infringement allegations, the operation of eBay's system, or MercExchange's alleged damages and Mr. Woolston's self-dealing "licensing" efforts.

Instead, Commissioner Mossinghoff will testify that MercExchange's counsel, John Phillips, committed inequitable conduct while prosecuting the '051 patent from December 2000 through April 2001. (Merc. Br. Ex. 1). Commissioner Mossinghoff will explain that Mr. Phillips learned of material information in December 2000, had a duty to disclose that information to the PTO in the '051 patent file, and failed to satisfy his duty of disclosure. Commissioner Mossinghoff will testify that this is not even a close case, and will explain that MercExchange's legal defense is unsound. (*Id.*)

Commissioner Mossinghoff's testimony has nothing whatsoever to do with Mr. Woolston's battle with PriceLine, much less anything to do with Mr. Gholz's few hours of consultation with Mr. Woolston, which concluded long before the events addressed in Commissioner Mossinghoffs report.

F. After Commissioner Mossinghoff offered his expert opinion, MercExchange harassed and attempted to deceive him.

Commissioner Mossinghoffs standing in the Virginia patent law community is well-known, and MercExchange has no substantive response to his expert opinion. Thus, *months after* approving Commissioner Mossinghoff as an expert in this case, MercExchange's counsel, Mr. Robertson, wrote Commissioner Mossinghoff directly, falsely alleging that Commissioner Mossinghoffs employer, the Oblon firm, *"represents"* MercExchange *"with respect to the prosecution of those patent applications."* (Merc. Br. Ex. 18 (emphasis added)). Mr. Robertson told Commissioner Mossinghoff to "withdraw the report" and withdraw from the "representation" in this matter. (*Id.*)

Mr. Robertson's letter would have deceived any reader into believing that Commissioner Mossinghoff had offered an expert opinion about the work of Oblon lawyers for a current Oblon client. In fact, MercExchange was *not an* Oblon client, and Commissioner Mossinghoff was *not* offering any opinion about the work of any Oblon lawyers. MercExchange's only connection with the Oblon firm had ended *years earlier*, after Mr. Gholz spent a handful of hours advising Mr. Woolston in the unrelated PriceLine "name-your-own-price" dispute.[2]

G. MercExchange threatened Commissioner Mossinghoffs employer with disciplinary action and public disparagement, and attempted to hide its threats from eBay and the Court.

eBay noted that MercExchange had already approved Commissioner Mossinghoff under the Protective Order, and

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[2] Mr. Robertson also instructed Commissioner Mossinghoff to "check" Mr. Gholz's file. (Mossinghoff Decl., Ex. B) Commissioner Mossinghoff, who does not work on or review any files of the Oblon attorneys, declined Mr. Robertson's suggestion. (Mossinghoff Decl. ¶17)

requested that MercExchange stop harassing Commissioner Mossinghoff at once: "This is not the first time that you have urged witnesses in this case not to testify, and we insist that your inappropriate conduct cease." (McFarland Decl. Ex. P)

eBay noted that Commissioner Mossinghoff does not represent *anyone*, and has no attorney-client relationship with any party in this case. (McFarland Decl. AA, ¶6)). Moreover, Commissioner Mossinghoff has never received *any* confidential information of MercExchange, other than under the Protective Order in this case. (*Id.* ¶¶7-8). Commissioner Mossinghoff had never even heard of Mr. Woolston or MercExchange prior to working on this case. (*Id.* ¶7)

Undeterred, Mr. Robertson then threatened Mr. Gholz and the Oblon firm with a harassing disciplinary action and false public disparagement unless they prevented Commissioner Mossinghoff from testifying:

> [P]lease advise us what steps your Firm now intends to take in order to remedy the conflict of interest. . . .
>
> We understand that both you and Mr. Mossinghoff are admitted to practice by the Virginia Bar. Accordingly, as you are aware, the Virginia Rules of Professional Conduct govern this matter. . . . *Rule 8.3 imposes a duty to report professional misconduct—such as obvious conflicts of its [sic] interest—to the appropriate authorities. Of course, we would not like to see the matter come to this, but we need this resolved promptly.*
>
> Finally, we do not want to have to engage in unnecessary motion practice before the Court in which such *ethical issues will be publicly aired* when your Firm's obligations are quite clear in this regard.
>
> *I know it goes without saying that you are not at liberty to share this communication on behalf of our mutual client [sic] with counsel for eBay.*

(Merc. Br. Ex. 22 (Letter from Robertson to Gholz (9/30/02) (emphasis added))).

MercExchange recognized that its threats to the Oblon firm, Mr. Gholz, and Commissioner Mossinghoff were improper. In fact, Virginia Rule of Professional Conduct 3.4(h) provides that a lawyer shall not "[p]resent or threaten to present criminal or disciplinary charges solely to obtain an advantage in a civil matter." VA. R. PROF. CONDUCT 3.4(h). Furthermore, Rule 3.4(i) states that an attorney *shall not:*

> File a suit, initiate criminal charges, assert a position, conduct a defense, delay a trial, or *take other action on behalf of the client when the lawyer knows or when it is obvious that such action would serve merely to harass* or maliciously injure another.

VA. R. PROF. CONDUCT 3.4(i) (emphasis added).

In a tacit admission that its conduct was improper, MercExchange attempted to conceal its threats from eBay and the Court, writing that *"I know it goes without saying that you are not at liberty to share this-communication on behalf of our mutual client [sic] with counsel for eBay."* (Merc. Br. Ex. 22 (Letter from Robertson to Gholz (9/30/02) (emphasis added))).

MercExchange's harassment and threats against Commissioner Mossinghoff are merely the latest example of its persistent, improper efforts to silence witnesses. Mr. Woolston previously urged willing third-party deponents not to testify,[3] and in May, 2002, Mr. Robertson falsely alleged a

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[3] MercExchange also threatened to sue third-party witnesses, *who were willing to testify* at a deposition, unless they filed a "motion to quash" the deposition, ghost-written for them by Mr. Robertson's law firm. For instance, MercExchange threatened Mr. Petsick. *See* McFarland Decl. Ex. Q (Petsick TR at 106:9-18 ("if we did not move forward with the motion to quash...that a lawsuit was threatened against us as individuals by whomever Mr. Liakos spoke to with Hunton & Williams.")). Mr.

conflict regarding Dr. David Reiley, one of eBay's technical experts. At the time, eBay took Mr. Robertson at his word, but eBay has since learned that *no conflict* existed, and Dr. Reiley could have testified after all. (McFarland Decl. Ex. R, ¶¶11-12)[4]

III. ARGUMENT.

A. MercExchange asks the Court to create an unprecedented and unjustified "vicarious" disqualification theory.

The Virginia Rules, and the courts, recognize that a conflict allegation "should be viewed with caution, for it can be misused as a technique of harassment." COMMENTS TO VA. R. PROF. CONDUCT 1.7. *See also Tessier v. Plastic Surgery Specialists, Inc.*, 731 F.Supp. 724, 729 (E.D. Va. 1990) ("The Court is not unmindful of the recent practice indulged in by some to use disqualification motions for purely strategic purposes."); *Freeman v. Chicago Musician Instrument Co.*, 689 F.2d 715, 722 (7th Cir. 1982) (noting that motions to

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Woolston personally and told these witnesses that they should allow MercExchange's lawyers to represent them to "eliminate our necessity to be deposed." *Id.* (Petrick TR at 98:11-25).

[4] Dr. Reiley explained that lawyers from the Hunton & Williams firm had called him, but broke off the communication *as* soon *as* they learned that Dr. Reiley knew people at eBay. McFarland Decl. Ex. R (McFarland Decl. Ex. R, 11-12) The Hunton & Williams lawyers did not even mention the name of their client, much less provide Dr. Reiley with any confidential information. (Id.) Thus, Dr. Reiley had no conflict with MercExchange, and was eligible to consult with eBay and provide an expert opinion in this case. Courts have condemned the tactics that Mr. Woolston used to deprive eBay of Dr. Reiley's services. *See generally Wang Labs., Inc. v. Toshiba Corp.*, 762 F. Supp. 1246, 1248 (E.D.Va. 1991) ("Lawyers using this ploy are not seeking expert help with their case; instead, they are attempting only to prevent opposing lawyers from obtaining an expert. This is not a legitimate use of experts, and courts should not countenance it by employing the disqualification sanction in aid of it.").

disqualify "should be viewed with extreme caution for they can be misused as techniques of harassment").

"Thus, the moving party bears a '*high standard of proof* to show that disqualification is warranted." *Tessier*, 731 F.Supp. at 729 (emphasis added) (citation omitted). *See also Commonwealth Ins. Co. v. Stone Container Corp.*, 178 F. Supp. 2d 938, 943 (N.D. 111. 2001) ("The moving party bears a heavy burden of proving facts required for disqualification.") (quotation and citation omitted). Disqualification cases typically fall under two categories:

- Attorney disqualification cases, where an attorney represents one party, then switches sides and represents his former adversary, shielded by a cloak of privilege

* * * *

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY, INC., a Delaware Corporation, HALF.COM, INC., a Pennsylvania Corporation, AND RETURNBUY, INC., a Delaware Corporation

Defendants.

EBAY INC.'S REPLY MEMORANDUM IN SUPPORT OF EBAY'S POST-*MARKMAN* MOTION FOR SUMMARY JUDGMENT OF NONINFRINGEMENT AND UNENFORCEABILITY OF U.S. PATENT No. 6,202,051.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMEN—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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* * * *

1. INTRODUCTION.

Summary judgment of noninfringement and unenforceability is appropriate on the '051 patent. MercExchange fails to identify a single genuine issue of fact. Instead, it consistently denies, or completely ignores, the controlling legal authority.

- First, MercExchange denies that the Court's *Markman* decision means what it says, dismissing the Court's language as erroneous "dicta" or mere "passing references." The time to seek reconsideration of the Court's *Markman* decision has passed, and the parties are now bound to follow it. The Court, like every other court that has considered the issue, correctly recognized the fundamental difference between the '051 patent trusted intermediary and eBay's person-to-person system, a difference that MercExchange's own "evidence" repeatedly emphasizes. Mr. Woolston disclosed only a trusted intermediary, and the marketplace rejected it. Because Woolston cannot now expand his claims to cover something that he failed to disclose, summary judgment is appropriate.

- Second, MercExchange and Mr. Phillips belatedly adopt a new "studied ignorance" defense to inequitable conduct. They contend that Mr. Phillips, after reading Examiner Kemper's decision and the withheld art, and deciding to cite the withheld references in another Woolston application, simply did not decide what to do during the months before the '051 patent issued. However, in order to create the new "studied ignorance" defense, MercExchange and Phillips ignore the Federal Circuit's controlling *Brasseler*, *Critikon*, and *Baxter* decisions, featured prominently in eBay's opening brief. MercExchange

> does not even cite these dispositive cases, much less attempt to distinguish them. The erroneous "studied ignorance" defense merely highlights that Phillips has no legally recognizable response. Summary judgment of inequitable conduct is appropriate.

MercExchange's response to the inequitable conduct motion is disturbing for two additional reasons. First, Mr. Phillips proclaims that he would withhold the information again today: "*I would not have acted any differently.*" The law does not give him the right to make such unilateral decisions. His concern that "few patents would ever issue" if he disclosed all material information is not an excuse, and Phillips knows that Examiner Kemper, Dr. Keller of CommerceNet, and Dr. Shamos of CMU's e-commerce department, have all concluded that the withheld information was indisputably material. Mr. Phillips also knows that Commissioner Mossinghoff has opined that this is a *clear case* of inequitable conduct. "it is axiomatic that '[c]lose cases should be resolved by disclosure, not unilaterally by applicant.'" *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (Fed. Cir. 1997). Yet Mr. Phillips states that he would not act differently today, and in fact, is continuing to seek the invalid '014 "debiting a seller's account" claims from the PTO.

Second, MercExchange asks the Court to create a series of unprecedented loopholes in the duty of disclosure, which would allow patent attorneys to: (1) intentionally ensure that the PTO never considers material art, by submitting late IDS forms out of compliance with the PTO regulations, (2) knowingly mislead the PTO to believe that a feature is novel, by making statements about the prior art "of record," while avoiding statements about "the entire universe" of prior art, (3) deliberately seek inconsistent rulings from the PTO and the Courts, by withholding the highly material decision of a PTO Examiner (or the decision of any authority, including this Court) so long as the applicant can argue that the decision

was "erroneous" and not "final," (4) deliberately prevent the PTO from considering the most damaging information, by disclosing *other*, less material information early in an application, (5) knowingly withhold from the PTO material information from copending applications with the same specification, so long as they do not seek identical claims (co-pending applications are never supposed to seek identical claims). The law does not support *any* of these unprecedented loopholes, which neither save the '051 patent, nor allow Phillips and Woolston to repeat such conduct in their ongoing patent prosecution. Summary judgment is necessary and appropriate.

II. SUMMARY JUDGMENT OF NONINFRINGEMENT OF EVERY '051 PATENT CLAIM.

Summary judgment of noninfringement is appropriate and required. The Court's Markman decision is crystal clear, and the person-to-person nature of eBay's system is beyond dispute. *See Stoner v. eBay*, 56 U.S.P.Q. 2d 1852, 1853 (Cal. 2000) (granting summary judgment that eBay is not legally responsible for the transactions of users on its site: "eBay does not select items to be auctioned, does not inspect or come into possession of those items at any time, does not describe the items to prospective bidders, and does not determine the minimum price which the seller will accept for the item."); *Gentry v. eBay*, 99 Cal. App. 4th 816 (Cal. App. 2002) (dismissing, as a matter of law, a complaint by a purchaser of counterfeit sports memorabilia using the eBay site); *Hendrickson v. eBay*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001) (granting summary judgment for eBay). In an effort to avoid the inevitable, MercExchange disregards the Court's discussion of the '051 patent and its construction of the '051 claims as "a passing reference" and erroneous "dicta." (Merc. Br. at 2, 34).

A. MercExchange asks the Court to overrule the *Markman* decision and expand the '051 claims beyond the support in the specification.

1. The Court correctly recognized the fundamental difference between a person-to-person system and a trusted intermediary.

As the Court and the parties acknowledged at *Markman*, two fundamental, competing types of on-line systems exist: (1) a trusted intermediary system, and (2) a person-to-person system. A trusted intermediary system assumes that Internet buyers and sellers will not take the "leap of faith" and trust each other. Thus, a trusted intermediary transfers ownership, adds value to the description of the goods, and ensures the buyer pays the seller. (*See Markman* Ruling at 12) Woolston explained the trusted intermediary philosophy of his alleged invention as follows:

> Therefore, internet customers are required to make a huge leap of faith that when they present electronic payment they are not going to get ripped off. The present invention solves this problem by placing a trusted intermediary, the market maker, between the customer and the small business. The market maker collects and/or processes payment from an internet customer and may escrow the payment until the customer receives the ordered good. The customer's payment information, or even identity, reside with the market maker and is never passed to the small business.

See Sealed Zahn Dec. (July 18, 2002), Exh. U at ME052442.

A person-to-person system takes the *opposite* approach. In a person-to-person system, the buyer and the seller deal with *each other*. The system does not vouch for the seller's goods, modify the description of the item, or transfer ownership. A person-to-person system sets up a place for the buyer and seller to meet, making the buyer and seller responsible for

consummating the transaction between themselves. The person-to-person approach assumes that, for the most part, buyers and sellers will not cheat or defraud each other. Many people, including Woolston, criticized the person-to-person philosophy as naïve, arguing that no one would take the required "leap of faith" necessary to implement it. In contrast, as MercExchange's *own evidence* notes, eBay's founder, Pierre Omidyar, believed that "people are basically good" and therefore decided to use a person-to-person system. (Phelps Dec. Ex. H). The two philosophies, as MercExchange's *own evidence* states, are "utterly different views of human conduct." (Phelps Dec. Ex. H).

> It all comes down to a few basic questions: Can we still trust people we don't know? Will our lives be better if we open our mailboxes—even our hearts—to people far away? . . . eBay has become a remarkable testing ground for this debate. Some 34 million people now participate in eBay, which consists of buyers and sellers from all over the world. Hardly any of them know one another. Nonetheless, they ring up commerce at a staggering rate . . . taking it on faith that someone really will send the money or ship the goods on time.

(Phelps Dec. Ex. H (emphasis added))

The Court's *Markman* decision is very clear—the '051 patent discloses only the trusted intermediary system, and *teaches away from the person-to-person model*. The Court stated, in construing the auction term:

> Everything disclosed in the '051 patent revolved around *a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price*. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment. . . . In this case, *the patent teaches away from person-to-person*

> *auctions, favoring a system with a trusted intermediary.* As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification. Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

(*Markman* Order at 12 (emphasis added)).

MercExchange asks the Court to ignore its decision and the '051 patent itself. Instead, MercExchange asks the Court to hold that the '051 "trusted intermediary" is any online service provider that allows users to post information, or is somehow "trusted" for something, no matter how unrelated to the '051 patent. Virtually every online system wishes to be "trusted" in the sense that MercExchange now argues.

MercExchange's argument would expand the '051 patent claims to cover *person-to-person* systems, even though the '051 patent "*teaches away*" from them, as the Court held. MercExchange's new argument clearly contradicts the '051 patent and the Court's *Markman* ruling, which states that the '051 trusted intermediary exists to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. (Markman Order at 12).

2. Unlike a person-to-person system, the '051 trusted intermediary transfers ownership, thereby avoiding fraud.

Unlike a person-to-person system, in which the buyer and seller are left to themselves to transfer ownership, the '051 trusted intermediary "transfer[s] ownership of the item." (*Id.* at 12). The '051 patent repeatedly emphasizes the transfer ownership function, which provides for "immediate or nearly immediate finality to the transaction." ('051 col. 18:37-56.)[1]

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[1] Woolston's specification describes a *transactional* system, which processes payments and transfers ownership. It *teaches away* from any-

Transferring ownership is an important part of the '051 trusted intermediary, because it allows the system to be used for rapid re-sale and "speculation," a feature that MercExchange and its experts have repeatedly emphasized.[2] Because the '051 trusted intermediary transfers ownership, buyers and sellers need not worry about fraud from *each other*, they rely on the trusted intermediary.

MercExchange now attempts to disavow the '051 trusted intermediary, incorrectly arguing that Woolston "cannot force people to consummate the transaction. He does not describe a situation in which sellers and buyers are compelled 'at gun point' to close the deal." (Merc. Br. at 36). MercExchange again ignores the patent itself and the Court's *Markman* ruling. The '051 trusted intermediary does not need a "gun"

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thing else. Woolston has admitted that, in contrast, eBay is a "non-transactional system." *See* Sealed Zahn Dec. (July 18, 2002) Exh. O (Woolston's U.S. Patent Application No. 09/422,058), at page 1, lines 13-17 (distinguishing Woolston's own patent specification from eBay: "Auction sites such as ebay™ are non-transactional database driven applications in that transactions are external to the ebay system and between third party participants that use the system, i.e., ebay as a web site and on-line commerce application does not process payment information or require payment information to participate in the system.").

[2] The '051 patent, as the Court noted, repeatedly emphasizes the trusted intermediary's transfer ownership function. *See* '051 col. 5:23-26 ("After the consignment node has cleared the transaction the system electronically transfers ownership of the Frank Robinson card to the participant") '051 col. 10:66-11:4 ("If the highest bid is greater than the reserve price the consignment node auction process posts sold! for xxx amount to the auction participants and calls the transfer ownership subroutine 270, discussed further below, and transfers the ownership of the good."); '051 col. 3:33-38 ("The present invention may allow a participant to electronically purchase goods from a consignment node and to select whether the good should be shipped to a participant designed location or the participant may take electronic legal ownership of a good and post a new participant defined offer or reserve price."); '051 col. 12:55-57 ("The consignment node then transfers legal ownership 408 of the good by changing the ownership entry in the data record in the consignment node of the good.").

because the trusted intermediary itself consummates the transaction, and *transfers the ownership*, as the Court correctly held. The '051 patent trusted intermediary either *already* possesses the goods, or has made a decision that the dealer is sufficiently reputable that the trusted intermediary is willing to vouch for the *bona fides* of the goods.[3]

Nonetheless, MercExchange selectively misquotes the '051 patent, arguing that Woolston's system has the same "fraud" problems as a person-to-person system, and therefore must "'police the network to give quality control, detect fraud and revoke licenses." (Merc. Br. at 36). The cited passage does *not* describe a person-to-person system. Rather, the '051 patent notes that when the trusted intermediary is formed by a trusted *network* of licensed, franchised consignment nodes (as opposed to a single node), the "central franchiser" may revoke the franchises "of poor quality consignment node users" who are failing in their trusted intermediary functions. ('051 Col. 4:5562). In other words, just as fast-food consumers believe that all Taco Bell® restaurants are the same, consumers across the country believe that all of the '051 trusted

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[3] The Woolston patents note that the consignment node user (*e.g.*, pawn broker) could "take postings from reputable dealers or collectors via a facsimile machine or other forms of electronic or verbal presentment of a good for sale," ('051 col. 4.46-50), but in every case, the consignment node user makes a judgment that the goods are bona fide, based on an inspection of the goods or an evaluation of the seller's repute. Woolston's patents do not disclose any means for anonymous and remote sellers to circumvent the consignment node users' gatekeeper function and post their goods to the network independently. In fact, Woolston has recognized that this feature of his patent—having a consignment node user screen goods to be sold on the network—is absent from eBay. In fact, when discussing his "LeftBid" system (one of the businesses in which Woolston unsuccessfully sought to commercialize his invention), Woolston distinguished his system from eBay: "*we have a closed seller system, i.e., only our dealers can sell—not everybody on the web.*" *See* Sealed Zahn Dec. (July 18, 2002) Exh. N at ME 0044444. *See, e.g.*, Sealed Zahn Dec. (July 18, 2002), Exh. K at 167:7-14 (Woolston attempted to implement and build his inventions in LeftBid).

intermediary franchises are the same. In stark contrast, users of a person-to-person system know that they must trust *each other* to consummate the deal, because the system does not ensure that the goods are what they are purported to be, does *not* ensure that payment is made as promised, and does *not* transfer ownership.

3. MercExchange's erroneous "gist" argument misstates the Court's ruling and ignores the law.

MercExchange asks the Court to reverse its *Markman* ruling, complaining that the Court limited Woolston to the "gist" of his alleged invention. The Court did no such thing, but rather, correctly held that Woolston could not expand his patent claims beyond the scope of his disclosure. The Court correctly noted that the '051 patent teaches away from a person-to-person system, and correctly cited authority holding that Woolston could not stretch his claims to cover such a system. The Court properly held:

> The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment. The Federal Circuit has repeatedly held that "when the 'preferred embodiment' is described as the invention itself, the claims are not entitled to a broader scope than that embodiment." *SciMed*, 242 F.3d at 1341 (Fed. Cir. 2001) (quoting *Wang Labs.*, 197 F.3d at 1383). Furthermore, "[w]here the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, read without reference to the specification, might be considered broad enough to encompass the feature 'in question." *Id.* In this case, the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary.

(*Markman* Order at 12).[4]

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[4] MercExchange cannot change the law, or enlarge the scope of the '051 patent, by emphasizing that in 2000, five years after filing his ap-

B. After repeatedly acknowledging at Markman that eBay is a person-to-person system, MercExchange cannot change its mind now.

The battle in the marketplace was over before it started. Mr. Woolston was never able to implement his trusted intermediary philosophy in the marketplace, because it is unwieldy, unnecessary, and not "scalable" at all—no party could effectively perform the trusted intermediary function for millions of transactions each day. Instead, the opposite person-to-person philosophy of eBay carried the day. Cf. Phelps Dec. Ex. EE at 6 (2001 eBay 10-K) (explaining benefits of eBay. "allows buyers and sellers to trade directly, bypassing traditional intermediaries and lowering costs for both parties.").

The battle in this Court should also be put to rest. The parties, and the Court, extensively debated at *Markman* whether the '051 claims could exceed the scope of the specification and cover a "person-to-person" system. During the *Markman* hearing, MercExchange acknowledged that eBay is successful because it adopted the elegant "person-to-person" model. See *Markman* TR at 43 (Mr. Robertson: "a person-to-person auction which is really the model that eBay has; that is, individual sellers can sell through the eBay service to individual buyers."); Id. at 43 (Mr. Robertson: "By November of 1997, *eBay really won the day because eBay had adopted the person-to-person model.*") (emphasis added); *Id.* at 43-44 (Mr. Robertson: describing "that kind of person-to-person individual network which was so critical to the success of eBay"). MercExchange cannot reargue *Markman*, ignore the Court's decision, and claim what MercExchange failed to

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plication, and after eBay rose to prominence, Woolston slipped the phrase "person-to-person" into one of his patent claims without mentioning it to the Examiner, and without explaining what it means in the context of the '051 patent specification. No person of skill in the art would interpret that act as expanding the '051 patent beyond the '051 trusted intermediary.

invent, failed to disclose, and failed to implement in the marketplace.

C. MercExchange's own evidence illustrates that summary judgment of noninfringement is appropriate.

1. MercExchange shows only that eBay users must take the "leap of faith" that the '051 patent trusted intermediary purportedly avoids.

MercExchange ignores the distinction between a trusted intermediary and a person-to-person system, arguing that eBay infringes the '051 patent claims because eBay is concerned with "trust." The argument ignores the purpose of the '051 trusted intermediary. The '051 patent describes a system where the Internet buyer and seller need not trust each other, but need only trust the '051 *trusted intermediary*, which ensures the goods were bona fide, transfers ownership, adds value to the description of the goods, ensures that the funds were transferred, and makes sure that no one is "ripped off."[5] *Thus, buyers and sellers do not have to generate their own good will in the '051 trusted intermediary system.* Buyers and sellers do not have to take the "leap of faith" that Woolston wanted to avoid. Rather, because the '051 trusted intermediary adds value to the description of the goods, transfers

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[5] As the '051 patent specification explains, the trusted "consignment node users" play a central role in the patents, acting as gatekeepers to ensure that goods are *bona fide* before they are sold or auctioned. The consignment nodes, the patent explains, "*provid[e] a trusted means to assure potential buyers of the good's bona fide availability and legal title*" '051 Col. 3:45-50 (emphasis added); *see also* '051 Col. 3:4-8 (describing a "consignment node 'trusted' bailee"). "Thus, the consignment node is a "trusted" network for consignment node users providing value to the network by imposing a quality and performance structure on the consignment nodes." '051 Col. 4:55-62. The '051 patent does not disclose *any* means for anonymous and remote sellers to circumvent the consignment node users' gatekeeper function and post their goods to the network independently.

ownership, and ensures payment, even an unknown, foreign-owned collectible store is able "to receive the business good will of the electronic collectible market place of the present invention [*i.e.*, the trusted intermediary's good will) to establish *immediate trust* with prospective electronic customers." '051 Col. 19:1-5 (emphasis added).

In stark contrast, as MercExchange's own "evidence" shows, eBay users must take that "leap of faith." (Phelps Dec. Ex. H (noting that eBay buyers and sellers are "taking it on faith that someone really will send the money or ship the goods on time")). Buyers and sellers must each build and generate their own individual on-line reputation—they *cannot* rely on eBay's good will. In every case, eBay expressly disclaims any responsibility for the transaction, and emphasizes that it cannot ensure that the buyer and seller will actually perform as promised:

> [W]e have no control over the quality, safety or legality of the items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to buy items. We cannot ensure that a buyer or seller will actually complete a transaction.

McFarland Dec. Ex. 2 (eBay User Agreement ¶3.1 (emphasis added)). Thus, as MercExchange's own evidence notes, "eBay does not take possession of either the item being sold or the buyer's payment for the item. Rather, the buyer and seller must independently arrange for the shipment of and payment for the item." (Phelps Dec. Ex. EE at 12). *See also* Phelps Dec. Ex. D ("In these kinds of auctions it's up to the high bidder and the seller to contact each other . . . after the auction to finalize the purchase and arrange payment and delivery.").

In contrast to the '051 patent system, eBay buyers and sellers must trust each other. MercExchange selectively quotes Ms. Whitman and Mr. Omidyar, who emphasized that

"[w]e really think it's important that users trust *one another*," (Phelps Dec. Ex. LL (Whitman TR at 114:3-8 (emphasis added)), and the trust "is not necessarily between an individual and eBay, the company . . . . . In other words, trust has to be encouraged between individuals." (Phelps Dec. Ex. MM (Omidyar TR at 78:13-7)). Thus, unlike the '051 patent trusted intermediary, eBay does not allow an unknown, foreign collectible store to establish "immediate trust" by relying on eBay's reputation. Rather, the foreign collectible store would have to establish its *own*, *independent reputation* within the eBay community. That is the essence of a person-to-person system, and it is unlike anything disclosed in the '051 patent.

2. MercExchange's "fraud" evidence shows that eBay is not the '051 trusted intermediary.

MercExchange's own evidence proves beyond any dispute that eBay is not the '051 trusted intermediary. MercExchange emphasizes that buyers and sellers are able to commit fraud, taking advantage of the fact that eBay does *not* ensure the bona fides of the goods, add value to the description of the item, transfer ownership, or ensure that the buyer pays as promised. MercExchange quotes the Federal Trade Commission, which states that "'Complaints about person-to-person on-line auctions is one of the largest categories of complaints we receive.' The complaints focus on things like goods not received and the sale of copies as the real thing." (Phelps Dec. Ex. S at E0346977); (Phelps Dec. Ex. Y at 4 ("The overwhelming majority of (auction fraud) complaints we receive have been for failure to deliver merchandise.")). Because eBay is not the '051 trusted intermediary, "things do go wrong" between buyers and sellers, which is the inevitable result of having "ordinary people *do business directly with each other* from remote points around the globe." (Phelps Dec. Ex. Z at 5). "Numerous [eBay] users have complained

over the years of sellers cashing money orders without delivering goods." (Phelps Dec. Ex. R at 14).[6]

Of course, eBay cooperates with authorities—and does its best to help them—when users defraud others on the eBay system. This fact merely emphasizes that eBay assumes the best in people *ahead of time*, unlike the '051 trusted intermediary. Rather than assuming the best in people, like eBay, the '051 patent presumes the *worst*. Thus, '051 trusted intermediary monitors every transaction for fraud *in advance*. The '051 trusted intermediary, which adds value to the description of the item, vouches for the bona fides of the goods, and transfers ownership, is, like any other retailer, responsible for the goods sold on its site. Buyers need not worry that the goods will not be delivered, because the '051 patent trusted intermediary "transfer[s] ownership of the item." (*Markman* Order at 12). Buyers need not worry that the goods will be misdescribed, because the '051 patent trusted intermediary "add[s] value to the description of the item." (*Id.*) Thus, the '051 trusted intermediary provides for a finality of transaction that permits rapid relisting, reselling, and, as the specification repeatedly emphasizes, speculation. Indeed, the only entity likely to succeed at fraud in the '051 claims is the trusted intermediary itself. Of course, the heavy security of the '051 patent comes at an overwhelming, unnecessary price—the system is neither efficient nor scalable, and neither Woolston nor anyone else has implemented it.

3. eBay's "Feedback Forum," which is the opposite of the '051 approach, is a feature that only a person-to-person system would have.

In contrast to MercExchange, eBay's founder, Mr. Omidyar, wanted to create a personto-person system in which buyers

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[6] Contrary to Mr. Woolston's expectations, the eBay philosophy has been largely successful. MercExchange's own evidence indicates that "by some measurements, fraudulent sales on eBay are less than one one-hundredth of 1 percent." (Phelps Dec. Ex. CC at 1).

and sellers relied on *each other*—not eBay—in conducting their business. Thus, he conceived of an elegant and simple solution, the "Feedback Forum":

> His answer was eBay's now famous "feedback forum," a rating system that records the reputation of all eBay members—buyers and sellers—in a highly visible area of the site. The company's feedback system is simple. An eBay user receives one point for every positive comment left by another member; no points for a neutral comment; and a point is subtracted for every negative comment. Besides the point system, eBay users submit more descriptive comments about their experiences with other parties in transactions—everything from "Great deal. Prompt shipping" to "Sent me a broken product. They won't respond to my e-mails." Likewise, sellers often praise or ding buyers for prompt or delayed payments.

(Phelps Dec. Ex. L (Wingfield at 1)). Mr. Woolston, who claims credit for a wide variety of Internet innovations that appear nowhere in his patent applications, now alleges that "Feedback Forum" idea is Woolston's idea too. Of course, the '051 patent nowhere mentions such a concept, which makes sense *only in a person-to-person system.*

Although eBay does not rate its users, MercExchange argues that eBay is responsible for posting user comments "accurately" so "that users can properly evaluate other users." (Merc. Br. at 39). MercExchange's own evidence, submitted in opposition to eBay's motion for summary judgment, acknowledges that the "Feedback Forum" is comprised solely of information generated *by the users, about other users,* without any representation from eBay about its accuracy:

> eBay cannot engage in the practice of reviewing the feedback for accuracy. If we did so, we would risk being legally responsible for any defamatory remark in feed-

> back, much like a newspaper. We would not be able to operate a feedback system in these circumstances, and are therefore unable to address situations where negative feedback may be unwarranted or inaccurate.

(Phelps Dec. Ex. U at 4). In short, eBay's "FeedBack Forum" is exactly the *opposite* of what Woolston envisioned and described.

Nevertheless, MercExchange also argues that eBay has become an "active intermediary that will shield the good users from the bad," (Merc. Br. at 40), and emphasizes that the eBay User Agreement "states that it will suspend users that have a net —4 feedback rating." (Palmer Dec. ¶36). Once again, MercExchange misstates eBay's role. eBay users, *not eBay*, are solely responsible for feedback. By submitting feedback, in essence, eBay users vote to determine who stays, and who goes, from the system.

4. MercExchange's BillPoint and PayPal arguments are red herrings—the buyer, not eBay, is responsible for paying.

Buyers and sellers need not worry about receiving payment in the '051 system because the trusted intermediary is responsible for transferring ownership and payment. In contrast, as set forth above, eBay's person-to-person system does *not* ensure either transfer of ownership or payment. Nonetheless, MercExchange states that "in many cases, eBay even consummates the transaction by intermediating payment from the buyer to the seller through eBay Payments, which uses Billpoint, PayPal or similar electronic payment technology." (Merc. Br. at 37). Once again, MercExchange is attempting to confuse the Court.

The winning bidder, not eBay, must decide whether to honor his agreement and pay, and the winning bidder, not eBay, decide whether to pay the seller by cash, check, PayPal, or BillPoint. The buyer makes the decision to pay, and even

buyers and sellers who use PayPal and BillPoint often correspond after the bidding and negotiate as they see fit. Even when a winning bidder decides to use BillPoint or PayPal (an independent company recently purchased by eBay) those services are merely ways the winning bidder decides (on his own) to pay, like putting a check in an envelope, attaching a stamp, and dropping the payment off at the United States Post Office. Neither eBay, BillPoint, PayPal, nor the U.S. Postal Service ensure that the winning bidder will pay the right amount, or even will pay at all—but Billpoint, PayPal, and the U.S Postal Service deliver whatever the winning bidder decides to send. McFarland Dec. Ex. 2 (eBay User Agreement 13.1 ("[W]e have no control over . . . the ability of buyers to buy items. We cannot ensure that a buyer or seller will actually complete a transaction.")). Thus, as Merc-Exchange's own "evidence" notes, "the buyer and seller must *independently arrange for the shipment of and payment for the item.*" (Phelps Dec. Ex. EE at 12). *See also* Phelps Dec. Ex. D ("In these kinds of auctions it's up to the high bidder and the seller to contact each other...after the auction to finalize the purchase and arrange payment and delivery."). *See Stoner*, 56 U.S.P.Q. 2d at 1854 (rejecting argument that Billpoint makes eBay "an active participant in the sale of auctioned goods and services").

5. MercExchange's erroneous argument that eBay is the "world's largest network of pawn shops" proves eBay's point.

MercExchange argues that eBay is the "world's largest network of pawn shops" and contends that "eBay stores" has somehow converted eBay into the '051 patent trusted intermediary or trusted network. MercExchange emphasizes that one Virginia Beach pawnshop, Nathan's, sells on eBay, but once again, MercExchange's own evidence proves eBay's point. The bidders in the '051 patent system do not need to trust a distant, unknown pawn shop—they put their faith in

the trusted intermediary, and the fact that their local, known and trusted consignment nodes stand behind it. In fact, the bidders in the '051 patent system do not even need to know anything about the distant pawn shop, (*i.e.*, "an unknown Russian collectable shop" '051 col. 18:60), because the '051 trusted intermediary puts its own reputation on the line, transfers ownership, and adds value to the description of the goods, which "allows the Russian collectible store to receive the business good will of the electronic collectible market place of the present invention to establish immediate trust with prospective electronic customers." '051 col. 19:1-5.

Unlike the '051 trusted intermediary, eBay's person-to-person system does *not* vouch for Nathan's pawn shop or any other—rather, Nathan's is like any other seller on eBay. Nathan's must generate its *own reputation and goodwill*, independent of anyone else in the system. It is responsible for describing its own goods, transferring ownership of its own goods, and consummating its own transactions, just like any other party. (Phelps Dec. Ex. F to Ex. VV ("*Seller assumes all responsibility for listing this item. You should contact the seller to resolve any questions before bidding.*") (emphasis added)). MercExchange's "evidence" is nothing more than Nathan's *own advertisement*. "We are fully licensed, bonded, and legitimate pawnbrokers. There have been pawnbrokers in the Nathan's family since 1894." (Phelps Dec., Ex. D to Ex. V). Nathan's, like *every other* "eBay store" is solely responsible for building its own reputation, just like everyone else in the eBay community.

6. eBay Motors highlights the fundamental differences between eBay and the '051 patent's trusted intermediary.

MercExchange's discussion of eBay Motors crystallizes the fundamental difference between eBay and the '051 trusted intermediary. Where a good is expensive—such as a motor vehicle—individuals are less inclined to take the "leap of

faith" required to enter into a less expensive person-to-person Internet transaction. eBay's "Vehicle Assurance Program" warns the buyer and the seller about the risks and encourages them to seek third-party assistance, but does *not* convert eBay into the '051 trusted intermediary, because eBay does not vouch for the buyer, seller, or vehicle or even know whether the buyer and seller follow through with payment and shipment after the auction closes.

> The eBay Assurance Program doesn't replace common sense . . . check on the eBay reputation of the person you're trading with. . . . If you're buying, ask enough questions so you can bid with confidence and commitment. Once the auction closes, follow through immediately to arrange the most secure way to exchange the funds and the vehicle.

(Phelps Dec. Ex. II at I). The program recommends that buyers and sellers consider *third-party* vehicle inspection service, provided by Vehicle Care Management Corp. (http//vcmc.rk.net), and a *third-party* payment escrow service, provided by Escrow.Com. In the end, the transaction is *entirely* up to the buyer and the seller, and eBay does not make *any* representation about the goods, ensure payment, or transfer ownership. If eBay were the '051 trusted intermediary, buyers and sellers would not use these third-party services at all. *See Stoner*, 56 U.S.P.Q. 2d at 1854 (rejecting argument that escrow services make eBay "an active participant in the sale of auctioned goods and services").

D. The irrelevant Palmer declaration cannot defeat summary judgment.

The Palmer declaration ignores the Court's Markman ruling, and thus cannot create any issue of fact. *See Wiener v. NEC Elec., Inc.*, 102 F.3d 534, 542 (Fed. Cir. 1996) (affirming summary judgment of non-infringement and holding an expert's declarations which "rest on an incorrect claim inter-

pretation...do not create a factual dispute."). Instead of following the *Markman* ruling, the Palmer declaration argues that eBay does not want to be seen as a dishonest company, and argues that eBay even sued other parties for "impugn[ing] its reputation." (Palmer Dec. 132). The Palmer declaration rewrites Mr. Woolston's application as inventing the idea that "trust may be built by having a system build its reputation." (Palmer Dec. ¶70). With that erroneous premise, the Palmer declaration argues that eBay is the '051 trusted intermediary because "eBay privacy agreement say [sic] `no spamming by other users," (Palmer Dec. ¶32), and explains that "users can trust eBay to enforce this [no-spam] policy to protect them." (Palmer Dec. ¶38).

The Palmer declaration also contends that eBay infringes because eBay keeps credit card numbers "in confidence" and does not distribute them publicly, or post them on the Internet. (*Id* ¶ 59). Furthermore, the Palmer declaration argues that eBay is the '051 trusted intermediary because it allows users to "enter descriptions of the item" in "colorful and attractive formatting"—even though eBay, unlike the '051 trusted intermediary, indisputably does not verify or alter the description, vouch for it, or have any idea whether it is accurate. (*Id.* 153). *See also Stoner*, 56 U.S.P.Q. 2d at 1853 ("The undisputed facts establish that the descriptions of the goods and services auctioned over the eBay service are created entirely by the sellers."); *Gentry*, 99 Cal.App.4th 816; *Hendrickson*, 165 F.Supp.2d 1082.

The Palmer declaration irrelevantly notes that the '051 patent has "users use a username and password to enter the system" and then argues that eBay is the '051 trusted intermediary because "clearly, eBay uses usemames and passwords." (Palmer Dec. ¶¶ 65). The Palmer declaration also argues that eBay is the '051 trusted intermediary because the eBay user agreement asks buyers and sellers to honor their bids and their promises—which yet again highlights that

eBay does not transfer ownership or perform the other functions of the '051 trusted intermediary.

Every Court to consider this issue, including *Stoner*, *Gentry*, and *Hendrickson*, has correctly held for eBay without the burden and expense of a trial. Because eBay indisputably is a person-to-person system, summary judgment of noninfringement is appropriate.[7] *See generally Bell Ad. Network Servs., Inc. v. Covad*, 262 F.3d 1258, 1279 (Fed. Cir. 2001).

III. SUMMARY JUDGMENT OF '051 PATENT UNENFORCEABILITY (INEQUITABLE CONDUCT).

A. MercExchange argues irrelevant generalities, and ignores the governing law.

MercExchange's own opposition papers also demonstrate that summary judgment of unenforceability is required. MercExchange argues at length about generalities, citing irrelevant cases that do not involve withholding material prior art, and contending that summary judgment is rarely appropriate in inequitable conduct cases.[8] MercExchange suggests that no

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[7] The Palmer declaration merely recites hearsay articles and other publications, interspersed with pure legal argument, and conclusory statements that eBay infringes. *See Novartis Corp. v. Ben Venue Labs.*, 271 F.3d 1043, 1050-51 (Fed. Cir. 2001) ("[A] party does not meet this evidentiary threshold merely by submitting the affidavit of an expert who opines that the accused device meets the claim limitations."). Thus, the Court need not consider the Palmer declaration. In addition, eBay believes that Dr. Palmer is not qualified to offer an expert opinion in this case, for the reasons set forth in eBay's opposition to MereExchange's motion for summary judgment (May 17, 2002).

[8] *See Baker Oils Tools v. Geo Vann*, 828 F.2d 1558, 1565-66 (Fed. Cir. 1987) (noting that the district court had inferred intent to deceive the PTO regarding the invention date because the attorney removed dates from documents that he submitted to the PTO. Because MPEP 2308.02 allows a party to remove dates in these circumstances, the Court concluded that a trial was necessary.); *KangaROOS v. Caldor, Inc.*, 778 F.2d 1571, 1574 (Fed. Cir. 1985) (considering whether a patentee was entitled to an earlier priority date and noting that the district court had analyzed the *wrong pat-*

lawyer would ever commit inequitable conduct, and contends that such claims are *per se* "offensive"

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ent application in reaching the decision: "On motion for summary judgment of invalidity of the divisional because of fraud in its prosecution, the critical issue was decided based on analysis of the claims of the wrong patent."); *Go Med.Indus.Pty. Ltd v. C.R. Bard, Inc.*, No. 99-1397, 2000 WL 1056063 (Fed. Cir. 2000) (involving a genuine dispute over when a party learned of a defect in its patent prosecution).

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., HALF.COM, INC.,
AND RETURNBUY, INC.,
Defendants.

DEFENDANTS' MOTION FOR EXPEDITED RELIEF IN VIEW OF WOOLSTON'S NEW STATE BAR COMPLAINT AGAINST EBAY'S EXPERT, WHO HAS A NEW YEAR'S EVE DEADLINE TO RESPOND.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

I. INTRODUCTION.

Although MercExchange has a fully-briefed "motion to disqualify" eBay's expert, Commissioner Gerald Mossing-

hoff, pending in this Court, Mr. Woolston has attempted to circumvent this Court's pending ruling by filing a *pro se* complaint with the Virginia State Bar seeking discipline and disbarment of Commissioner Mossinghoff, who has never met Woolston, and had never even heard of him before this lawsuit. Woolston hopes to intimidate Commissioner Mossinghoff and prevent him from testifying in this case, knowing that eBay has no right to submit information to the State Bar, and that many of the relevant pleadings and evidence in this case are "under seal." Commissioner Mossinghoff must respond to Woolston's formal disciplinary complaint no later than New Year's Eve, only ten business days from now.[1]

Neither eBay nor Commissioner Mossinghoff will be able to respond effectively to Woolston's holiday-season State Bar assault unless the Court grants expedited relief in the form of an order that: (1) addresses certain factual and legal issues which are subject to this Court's jurisdiction, set forth below, and (2) permits eBay to provide a copy of the Order and the pleadings in this case to the Virginia State Bar, and to Commissioner Mossinghoff's current employer, which Woolston has also attacked. The State Bar has no familiarity with this case, no expertise in patent law, and *no ability to adjudicate MercExchange's March 2002 approval of, and consent to, Commissioner Mossinghoff's expert testimony under this Court's Protective Order*. Therefore, unless the Court grants immediate relief, both eBay and Commissioner Mossinghoff,

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[1] Woolston secretly filed his Complaint with the State Bar on November 26, *without serving either eBay or Commissioner Mossinghoff* MercExchange's first "notice" to eBay of Mr. Woolston's State Bar attack was a passing comment at the end of the Robertson declaration, which eBay received late on Friday, December 13, 2002. Commissioner Mossinghoff did not learn of the State Bar Complaint until Thursday, December 12, 2002. As a result of Woolston's decision to keep his State Bar Complaint secret, any delay in granting the relief requested in eBay's motion will cause eBay and Commissioner Mossinghoff irreparable harm in responding effectively in the State Bar by the required New Year's Eve deadline.

a universally-respected, lifelong civil servant who served the PTO as a Patent Examiner even before Woolston was born, will suffer irreparable harm from Mr. Woolston's one-sided presentation of false and misleading arguments.

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Dec. 20, 2002]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., et al.,

Defendants.

ORDER AND OPINION

On December 16, 2002, the court received defendants' Motion for Expedited Relief in View of Woolston's new State Bar Complaint Against eBay's Expert, who has a New Year's Eve Deadline to Respond. This motion seeks expedited consideration of the plaintiffs Motion to Disqualify Gerald J. Mossinghoff, one of the defendants' experts in this case, in light of a bar complaint filed against Mr. Mossinghoff by Mr. Woolston, the inventor of the patents at issue. The defendants are seeking an order from this court that (1) addresses certain factual and legal issues which are subject to this court's jurisdiction; and (2) permits eBay to provide a copy of the order and the pleadings, which have been filed under seal, to the Virginia State Bar, and to Mr. Mossinghoff s current employer, which Woolston has also attacked. Based on the importance of this matter, as well as the New Year's Eve deadline, the court grants the defendants' Motion for Expedited Consideration. However, the court makes it clear that it is not granting this Motion based on any sense of urgency in the matter as it pertains to this case. Rather, the court grants the defendants' Motion so that Mr. Mossinghoff may respond to Mr. Woolston's Virginia Bar complaint.

* * * *

aware of the outcome of the '286 application.

During the prosecution, different examiners reviewed the '014 and the '021 applications. Demetra Smith reviewed the '021 application and Melanie Kemper was assigned the '014 application. During the review of the '014 application, Examiner Kemper found prior art which she believed rendered certain claims unpatentable. The crux of the defendants' argument is that the prior art used by Examiner Kemper to reject the claims of the '014 patent was not disclosed to Examiner Smith in her review of the '021 patent even though John Phillips, the attorney who prosecuted these patents for Mr. Woolston,[2] was under an obligation to reveal this allegedly material information. The defendants submitted the expert declaration of Gerald J. Mossinghoff, stating that in his opinion, Mr Phillips' conduct was inequitable and in violation of the PTO's regulations. The court determined that the defendants had properly pled the defense and found that pursuant to Federal Rule of Civil Procedure ("Rule") 15(a), the defendants would be permitted to amend their answer. The court also found that there was sufficient evidence for the affirmative defense to survive a Rule 12(b)(6) Motion to Dismiss. Moreover, the court declined to strike Mr. Mossinghoff's opinion, holding that it was an evidentiary issue that would be best handled at the summary judgment stage. As a result, the defendants' Amended Answer was filed.

II. Plaintiff's Motion to Disqualify Mr. Mossinghoff

The plaintiff filed its Motion to Disqualify Mr. Mossinghoff based on an alleged conflict of interest. According to the pleadings, in 1999 Mr. Woolston retained Charles Gholz with the

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[2] John Phillips, at the time, was associated with the law firm of Fish and Richardson, PC.

itself. Moreover, Mr. Mossinghoff is not being asked to form an opinion on any aspect of the '286 application. There is nothing in the record to suggest that even if Mr. Mossinghoff was privy to confidential information about the '286 application, that it would have been relevant in his role as an expert in this case. Finally, the fact that Mr. Gholz was asked to consolidate all of Mr. Woolston's patent applications does not change this analysis. The act of asking the PTO to consolidate applications does not prove to this court that Mr. Gholz worked on those patent applications thereby requiring disqualification of Mr. Mossinghoff. In fact, this court does not believe that Mr. Gholz would be disqualified from testifying as an expert on this ground. Therefore, the court finds that the matters are not substantially related for purposes of disqualification.

2. The plaintiff has consented to Mr. Mossinghoff as an expert

Furthermore, even if the matters were substantially related, the plaintiff has consented to Mr. Mossinghoff as an expert for the defendants in this case based on their failure to object to his involvement earlier. On March 29, 2002, the defendants first listed Mr. Mossinghoff and his law firm in a required expert disclosure. Mr. Mossinghoff was identified as an expert in patent law issues. The plaintiff did not raise any objection to Mr. Mossinghoff or Oblon Spivak at this time. On May 16, 2002, the defendants provided the plaintiff with Mr. Mossinghoffs curriculum vitae, and once again, the plaintiff did not object, although the plaintiff did raise an objection to another expert based on conflict of interest. Again on June 5, 2002, the defendants provided the plaintiff with additional information so that it could undergo a conflict review. The plaintiff still did not object to Mr. Mossinghoff following its conflict review. It was not until Mr. Mossinghoff filed an expert declaration with respect to the defendants' inequitable conduct defense that the plaintiff

* * * *

first raised the issue of conflict of interest. The timing of this Motion to Disqualify appears to be purely for strategic purposes, which this court has held is a practice that "courts should not be oblivious to." *Tessier*, 731 F. Supp. at 729 ("the Fourth Circuit has cautioned against a mechanical application of the Virginia Code of Professional Responsibility to [these] situations."). The plaintiff was informed that the defendants intended on using Mr. Mossinghoff as an expert, and it knew what patents and patent applications were at issue in the case. Had the plaintiff believed that Mr. Mossinghoff s affiliation with the Oblon Spivak firm presented a conflict of interest based on Mr. Woolston's prior dealings with Mr. Gholz, the plaintiff had over six months to raise the issue. Therefore, even if the matters were substantially related, the plaintiff's failure to raise the issue of conflict of interest earlier resulted in their consent to Mr. Mossinghoff as the defendants' expert.

D. Sealed pleadings to Virginia State Bar

Finally, the court grants the defendants' request to allow Mr. Mossinghoff to submit copies of the pleadings in this matter, as well as any necessary pleadings from the defendants' Motion for Leave to Amend Answer, to the Virginia State Bar in response to Mr. Woolston's Bar complaint. The pleadings may also be provided to Mr. Mossinghoff s current employer to the extent necessary for this Bar complaint. These pleadings are only to be used for an in camera review and shall not become open to the public.

III. Conclusion

For the reasons stated above, the court GRANTS the defendants' Motion for Expedited Review and DENIES the plaintiff's Motion to Disqualify Mr. Mossinghoff. The other issues raised by the plaintiff in that Motion concerning the exclusion of purportedly late-filed expert

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Jan 13, 2003]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., et al.,

Defendants.

ORDER AND OPINION

Presently before the court is a Motion to Reconsider filed by MereExchange, Inc. ("plaintiff") based on this court's October 21, 2002 Order and Opinion granting in part eBay, Inc.'s ("defendant") Motion for Summary Judgment that all claims of U.S. Patent No. 6,202,051 ("the '051 patent") are invalid for an inadequate written description. Based on the briefs submitted by the parties, including the briefs from the original Motion for Summary Judgment, the court denies the plaintiff's Motion to Reconsider.

I. Factual Background

On October 21, 2002, this court issued an Order and Opinion on the three remaining Motions for Summary Judgment filed by the parties ("October 21 Opinion"). In this Opinion, the court granted in part and denied in part defendant eBay's Motion for Summary Judgment that all claims of the '051 patent are invalid for an inadequate written description; granted in part and denied in part the plaintiff's Cross-Motion for Summary Judgment that all claims of the '051 patent are

valid for an adequate written description; and denied defendant Half.com's Motion for Summary Judgment that claims 1-9 and 29-41 of U.S. Patent No. 6,085,176 ("the '176 patent") are invalid pursuant to 35 U.S.C. §§ 102(a) and/or 102(g). On November 1, 2002, the plaintiff

* * * *

III. Debiting/Charging a Seller's Account[1]

The plaintiff argues that based on the Joint Declaration of its experts, Jonathan W. Palmer and Alfred C. Weaver, a dispute exists over a material fact, and thus, granting summary judgment was improper. While the plaintiff is correct in that this declaration does support its contention that there is an adequate written description of debiting/charging a seller's account a commission or fee in a person-to-person based auction system, this declaration was prepared before the court's Markman Opinion, which greatly altered the plaintiff's version of what the patent claimed. Most importantly, the court held that the auction system envisioned by the inventor was "a process over a trusted network, or with a trusted intermediary," and not a person-to-person based system. *See Markman* Opinion, pp. 12-13. The plaintiffs experts proceeded under the impression that the patent envisioned a person-to-person auction system, without a trusted intermediary. Given the court's interpretation of the patent claims, the experts' declaration submitted by the plaintiff no longer supports its argument that the written description adequately describes the process of debiting/charging a seller's account a commission

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[1] There appears to have been some confusion over whether the court October 21 Opinion involved both debiting and charging a seller's account a commission or fee, or just debiting the account. The court meant to address both of the terms together, just as it did in its October 18, 2002 Order and Opinion. ("*Markman* Opinion"). *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370, 116 S. Ct. 1384 (1996). However, in order to be crystal clear in this Order and Opinion, the court will use both terms throughout.

or fee. *See Wiener v. NEC Electronics. Inc.*, 102 F.3d 534, 542 (Fed. Cir. 1996) (affirming summary judgment of non-infringement and rejecting an expert's declarations which "rest on an incorrect claim ~~interpretation~~ . . . [and] do not create a factual dispute."), *abrogated on other grounds by, Cybor Corp. v. FAS Technologies. Inc.*, 138 F.3d 1448 (Fed. Cir. 1998). As such, the plaintiff

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY INC., HALF.COM, INC., AND RETURNBUY,
Defendants.

EBAY'S MOTION TO ENFORCE JUDGE FRIEDMAN'S SEPTEMBER 19 AND NOVEMBER 22 ORDERS, AND OPPOSITION TO MERCEXCHANGE'S DECEMBER 27 MOTION TO REOPEN FACT DISCOVERY

FILED UNDER SEAL

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RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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attorneys did, and (2) eBay did not waive its objections to inappropriate questions embedded with multiple false assumptions.

No court should punish Mr. Omidyar under these circumstances, or allow MercExchange to hypocritically attack Mr. Omidyar without explaining what happened during the Woolston deposition. Otherwise, the Court will endorse a double-standard that defies due process, and perpetuates the harm that eBay and its witnesses have already endured. Woolston is the alleged inventor and the central witness in this case, but MercExchange's lawyers—one of whom attended the Omidyar deposition—made blatant coaching objections literally *hundreds* of times, completely disrupting and derailing his deposition. For example, MercExchange's attorneys repeatedly coached Woolston to testify that he could not answer basic questions about his own patent application and claims because he is "not an expert." (McFarland Decl. Ex. K (Woolston TR 383:6-19)). After nearly *fifty* such improper "expert" coaching objections, eBay stipulated that the objection would be forever preserved, hoping to prevent further disruption. (*Id.* at 385:14-386:14 ("Counsel, I'll stipulate that you have not designated him as an expert to testify and provide expert opinion testimony; all right? Please stop making the objection. It's inappropriate and wasting our time.")).

MercExchange's attorney accepted the stipulation, but continued to make the coaching objection another *two-hundred seven (207) additional times*. (*See, e.g., id.* at 435:5-447:4; 466:11-467:2; 531:1-21; 552:11-554:22; 567:12-568:2; 577:4-578:5; 585:2-590:13). Even when eBay reminded MercExchange of the stipulation and implored Mr. Cawley to stop coaching, Mr. Cawley persisted. *See, e.g., id.* at 531:12-15 ("You continue making that particular objection and I told you I think it's unnecessary and I think I've made that clear. Please, you don't have to waste our time with that."); *id.* at 577:12-16 ("Mr. Cawley, I've told you over and over and

over, that objection is unnecessary, and you continue to make it and you continue to waste time. Please don't do that anymore."); *id.* at 356-57:22-357:5 ("Mr. Cawley, I'm going to ask you to keep your objections to a legal basis. If you have a legal objection to make, make it; all right? Otherwise, please don't either coach the witness or say additional information that's unnecessary."); *Id.* at 386:15-18 ("I don't want you to make objections that are unnecessary and intended, at least in my view, to coach the witness. That's what I'm asking you to stop doing.").

MercExchange's rote incantation of its coaching objections were absurd. At one point, when eBay pointed to a document and asked Woolston simply "Do you, see that?" MercExchange's counsel repeated its prior objection that the question *was beyond the scope of the 30(b)(6) topics and called for an expert opinion.* (*Id.* at 598:10-19 (repeating objections asserted at 596:5-8: "This goes beyond the scope of the 30(b)(6) designations. You're asking him to give expert testimony.")).

At times, MercExchange made up nonsensical grounds for objecting as it went along. For example, when eBay asked inventor Woolston simply *whether he read his own patent* before he came to testify as a 30(b)(6) witness, Mr. Cawley objected that the simple question was "unfair":

> Mr. Woolston. I'm asking a simple question: Did you read your patent before you came here to testify on behalf of the company as a designee under the Rule 30(b)(6)?
>
> MR. CAWLEY: Objection. There's no designation for him to interpret the claims under 30(b)(6).
>
> MR. RANDALL: What's your objection?
>
> MR. CAWLEY: My objection is it's not a fair 30(b)(6) designation, and therefore, your question is unfair, and I'm objecting—

MR. RANDALL: You're objecting that it's unfair?

MR. CAWLEY: Yes.

MR. RANDALL: Make a legal objection; okay?

(*Id.* at 362:9-363:3)). These were not isolated incidents. At another point, Mr. Cawley delayed the deposition to coach Woolston and "*point out, of course, that I assume counsel for eBay will be taking the depositions of the various experts that have been identified by MercExchange in this case.*" (*Id.* at 356:16-21)). That is not a legal objection, but is coaching and disruption, plain and simple.

At times, Mr. Cawley did not even *attempt* to mask his coaching, and directly told Mr. Woolston how to answer the question:

> MR. CAWLEY: Objection. There's another little built-in thing he put in there, not very subtly, I might add. Don't answer that question, to the extent that the premise is incorrect or to the extent that to answer that would cause you to indicate a communication to you from attorneys or from you to attorneys.

(*Id.* at 343:6-12)).

At another point, after making his ludicrous "expert" coaching objection—which eBay had already stipulated was preserved forever—Mr. Cawley launched into a bizarre diatribe and attempted to bait Mr. Randall, who had raised his hands in exasperation at Mr. Cawley's repeated, ludicrous, and preserved "he's not an expert" coaching objection:

> MR. CAWLEY: I object. He's not been designated as an expert in any topic.
>
> MR. RANDALL: I'm asking for his understanding.
>
> MR. CAWLEY: You're asking for an opinion. Don't raise your hand to me because these are improper questions.

> MR. RANDALL: What's the legal basis for your objection?
>
> MR. CAWLEY: I tried to say and you held up your hand trying to prevent me from objecting. I have to object because it's an improper question. I'm not saying he can't answer because he's answering subject to my
>
> MR. RANDALL: I'm going to ask you to state the legal objection only. If you say it's an improper question, fine, I understand if you object you think it's improper, but state the legal grounds.
>
> MR. CAWLEY: I was stating to the preemptory way you were holding up your way to prevent me from objecting. This is beyond the scope of the 30(b)(6) deposition. And secondly, you're asking him to voice an opinion, and he hasn't been designated as an expert in any area to voice opinions. I'm sure you'll be taking those experts' depositions.

(*Id.* at 592:11-593:15)).

When eBay requested additional time to depose Mr. Woolston—the central figure in this case, who had successfully blocked eBay's examination—Judge Bradberry first granted eBay an additional day, then changed his mind and held that the deposition was closed because Mr. Woolston had "testified" for four days.[9] The Court said nothing about MercExchange's deposition misconduct, and thus, rewarded MercExchange's misbehavior. MereExchange now asks the Court to apply a blatant double-standard and order entirely new depositions of third-party Pierre Omidyar and eBay in-house counsel John Monahan, simply because eBay's counsel at-

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[9] On April 16, 2002, Woolston was examined by Mr. Ebertin on particular topics, including conception and reduction to practice and dozens of declarations, as a 30(b)(6) designee. On June 18-20, 2002 Woolston testified in his individual capacity and was designated by MercExchange regarding all remaining 30(b)(6) topics addressed to MercExchange.

tempted to preserve the attorney-client and work-product privileges and objections to the questions that contained numerous false and misleading assumptions. No. deposition defense is perfect, but the efforts of Mr. Omidyar's counsel were made in good faith, and do not begin to approach the misconduct that MercExchange perpetrated at the Woolston deposition.[10]

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[10] This is not the first time that MercExchange has deceptively asked the Court to create a double-standard in this case. MercExchange served over a thousand RFAs, including RFAs asking eBay to admit the truth of *every statement* in documents that were 529 pages long, 116 pages long, 156 pages long, 137 pages long, 72 pages long, 88 pages long, 81 pages long, and 92 pages long. Judge Bradbeny ordered eBay to respond, requiring eBay to review thousands upon thousands of separate statements. Thereafter, when eBay asked MercExchange to admit the truthfulness of every statement in documents that were 72 pages long and 27 pages long, MercExchange attempted to deceive the Court by falsely stating that it had asked only that eBay "authenticate" the documents: "Your Honor, I am really amused by the outrage expressed by Mr. McFarland over our reluctance to answer a request for admission that asks us to admit the truth of a 72-page document, of all of the statements in that document. We filed requests for admissions in this case where we merely asked them to admit to the authenticity of their documents, and they objected and said it was burdensome. For them to come here to you today and to say that it is unreasonable for us to refuse to admit or deny the truth of every single statement in a 72-page document when they were right up here just a few weeks ago saying it's burdensome for them to even admit the authenticity of their own documents is amazing to me. The reality is that we will never admit to the truth or accuracy of every single statement in a 72-page document." July 26, 2002 Hearing Tr (July 26, 2002) 16:9-23; 17:6-12.

When eBay noted that MercExchange had required eBay to admit the truthfulness of every statement in documents that were hundreds of pages long Mr. Stillman, remarkably, denied it: "I mean, notwithstanding the representations of counsel, I promise you there has never been any example we have admitted to the other side where we asked them to admit the truth of all statements of hundreds of pages of documents or even 10 pages of documents, to my recollection." Hearing Tr., 20:11-15 (emphasis added). Mr. Stillman's "promise" was simply not true, and it induced the Court to enter plainly inconsistent and one-sided orders, severely preju-

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dicing eBay in this case. *See* Plaintiff MercExchange L.L.C.'s Rebuttal Brief in Further Support of its Fourth Expedited Motion to Compel Discovery, at 13 (Filed May 2, 2002) ("Finally, eBay goes to great lengths to argue how difficult it would be for it to admit the truthfulness of various statements that are the subject of the requests. Of course, these are the very same arguments that eBay made before this Court, and which the Court rejected.").

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY INC., a Delaware Corporation, HALF.COM, INC.,
a Pennsylvania Corporation, and RETURNBUY, INC.,
a Delaware Corporation,
Defendants.

EBAY INC. AND HALF.COM, INC.'S MOTION TO STRIKE EXTRANEOUS STATEMENTS IN MERCEXCHANGE AND RETURNBUY'S PROPOSED CONSENT ORDER AND JUDGMENT

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED

CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT- FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

I. INTRODUCTION.

eBay respectfully requests the Court strike the extraneous statements included in MercExchange's proposed "Consent

Judgment and Order," filed with the Court on January 8, 2003.[1] MercExchange and ReturnBuy, an insolvent company that is now in the midst of an asset sale, have chosen to settle, and eBay neither challenges, nor asks the Court to interfere with, their right to do so.[2] However, the Court should reject the extraneous statements in MercExchange's proposed "Consent Judgment and Order," which extend beyond the rights of MercExchange and ReturnBuy and thus run afoul of due process, public policy, and fundamental fairness.

- First, MercExchange's proposed Consent Judgment gratuitously states that the '265 patent is valid and enforceable, without asking the Court to undertake any consideration of the merits. Because patents are property rights held against the public as a whole, not merely against defendants to an infringement action, the Supreme Court has stressed that public policy dictates careful determination of patents' validity and enforceability. Nonetheless, MercExchange asks the Court to state that the '265 patent is valid and enforceable, not on proof and consideration, but based merely on a hearsay "confession" purchased from an insolvent company. Public policy dictates rejection of such terms.

- Second, the Consent Judgment and Order addresses the rights of third-parties, in violation of due process and public policy. MercExchange and insolvent ReturnBuy were free to choose the terms of their settlement, but they cannot ask the Court to enter a judgment expanding the scope of the claims beyond the

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[1] Defendants provide a proposed order dismissing MercExchange's complaint against ReturnBuy, striking the improper extraneous holdings.

[2] MercExchange contacted ReturnBuy directly and concluded the negotiation and settlement without the involvement of ReturnBuy's prior litigation counsel of record, Cooley Godward and McGuire Woods.

Court's construction and enjoining third-parties who neither negotiated the agreement nor assented to be bound by its terms.

- Third, the Consent Judgment and Order endorses as true sham "confessions," fabricated in a settlement between two equally desperate companies. Insolvent ReturnBuy needed to extricate itself from litigation that has been blocking its liquidation and dissolution. Mr. Woolston, having lost the '051 patent already, and facing a summary judgment motion on another, sought "evidence" to bolster a failing lawsuit. Thus, MercExchange absolved ReturnBuy of any liability in return for a number of lay, hearsay "confessions" about legal issues, as well as an inflated royalty rate that insolvent ReturnBuy will never pay. The Court should not, and need not, endorse the sham confessions.

MercExchange and ReturnBuy have already executed Settlement and License Agreements setting forth all of the rights and obligations of those parties. The extraneous provisions in the Consent Judgment are improper; MercExchange is not entitled to a Court Order that violates public policy, due process, and fundamental fairness. Accordingly, eBay respectfully requests the Court strike the proposed Consent Judgment and Order's extraneous statements, and reserve comment until the issues are decided on the merits.

II. BACKGROUND.

MercExchange has planned to sue successful Internet businesses for years, long ago entering a series of self-dealing, sham "license" agreements which it hoped to offer as the foundation for its damages case.[3] For example, Mr. Wool-

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[3] In 1995, Pierre Omidyar and Thomas Woolston had two fundamentally different views of how to run a business on the internet. Mr. Woolston, an associate in a Washington D.C. law firm, sat down and wrote a

ston, negotiating with himself, entered into numerous contracts that Mr. Woolston now asks the Court to accept as arms-length transactions.

- October 8, 1999: Leftbid.com—with Mr. Woolston as a Director and Chief Technology Officer and General Counsel of its parent company—entered a license agreement with MercExchange—with Mr. Woolston as Managing Director;
- October 28, 1999: Aden—with Mr. Woolston as General Counsel and Chief Technology Officer—entered a license agreement with MercExchange—with Mr. Woolston as Managing Director;
- March 1, 2000: Navlet.com—with Mr. Woolston as President and CEO—entered a license agreement with MercExchange—with Mr. Woolston as Managing Director.

The ReturnBuy/MercExchange settlement is the latest twist on the strategy. With the '051 patent held invalid and further summary judgment motions pending, MercExchange contacted ReturnBuy (bypassing ReturnBuy's then-litigation counsel, Cooley Godward and McGuire Woods) and offered to settle.

ReturnBuy was deep in insolvency. (McFarland Decl. Ex. 1 (Benn Decl. ¶2)). By mid-December 2002, ReturnBuy's condition had become hopeless, and ReturnBuy's CEO, Walt Shill, had unsuccessfully spoken with dozens of entities in an effort to find a purchaser for the company or its assets. (*Id.*

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patent application describing his trusted intermediary system, and then went back to his law-firm work. Mr. Omidyar sat down and within a week wrote the software for a person-to-person auction system that became known as eBay. After Mr. Woolston left law-firm practice and failed to implement his trusted intermediary system in the marketplace, Mr. Woolston resolved to take on eBay in more familiar environs: at the patent office and in federal court.

¶¶2-3). With ReturnBuy insolvent, Mr. Shill concluded that he had a duty to liquidate the company for the benefit of its creditors. (*Id.* ¶3). After dozens of failures, Mr. Shill finally found a potential buyer. (*Id.* ¶2-3). However, Mr. Shill had to resolve the MercExchange litigation to proceed with the possible asset sale. (*Id.* ¶3).

Mr. Shill told MercExchange that ReturnBuy was in dire straights and planning to sell its assets. (*Id.* ¶4). MercExchange offered to drop the case against ReturnBuy in exchange for a "confession" and an accusation against eBay. (*Id.* ¶4); (McFarland Decl. Ex. 2 (Buroker Decl. Ex. 00) (Settlement Agreement) (Dec. 18, 2002)). ReturnBuy agreed, because it had reached a point of insolvency and was attempting to sell its assets. (McFarland Decl. Ex. 1 (Benn Decl. ¶4)).

Thus, MercExchange dropped any claim against ReturnBuy for past "infringement" of the '265 patent,[4] and Mr. Shill "confessed" that ReturnBuy had infringed the '265 patent. (McFarland Decl. Ex. 2 (Buroker Decl. Ex. 00) and Ex. 3 (Buroker Decl. Ex. PP) (License Agreement) (Dec. 2002)). MercExchange even insisted that non-lawyer Shill "confess" that the '051 patent was "valid"—contrary to the orders of the Court—and that all of the Woolston patents were "valid" and "enforceable." (McFarland Decl. Ex. 3 (Buroker Decl. Ex. PP)). MercExchange also extracted Mr. Shill's "confession" that eBay had "induced" and "contributed" to ReturnBuy's supposed "infringement" of the '265 patent claims. (McFarland Decl. Ex. 2 (Buroker Decl. Ex. 00)). Finally, MercExchange insisted that Mr. Shill agree to an exorbitant "license" of the '265 patent for the future—but ReturnBuy has no future. As would become clear later, MercExchange planned to argue to the Court and the media that the exorbi-

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[4] MercExchange's experts estimated the damages attributable to ReturnBuy for this period to be approximately $2.8 million. See (McFarland Decl. Ex. 4 (Expert Report of R. Troxel, Exh. D-3a)).

tant ReturnBuy "license" was evidence of the rate that eBay should pay.

MercExchange now asks the Court to enter the proposed "Consent Judgment and Order" bloated with extraneous, overreaching language. For example, the Consent Judgment and Order states that "the '265 patent is valid and enforceable." The Consent Judgment and Order also purports to extend the effect the settlement to third parties who neither negotiated it nor assented to its terms: "ReturnBuy further agrees and stipulates that . . . any persons in active concert or participation with them who receive actual notice of this judgment are permanently enjoined." Moreover, the Consent Judgment and Order expands the scope of this proposed injunction beyond the Court's construction of the '265 claims. The description of prohibited conduct makes no reference to the Court's Markman ruling, merely summarizing the '265 claim language and purporting to bar "any colorable variations thereof."

III. ARGUMENT.

A. Although Parties are Generally Free to Settle Their Claims Without Judicial Approval, The Court Must Scrutinize a Consent Decree Before Entry.

Generally, "federal courts have neither the authority nor the resources to review and approve the settlement of every case brought in the federal court system." *Caplan v. Fellheimer Eichen Braverman & Kaskey*, 68 F.3d 828, 835 (3d Cir. 1995). However, "certain designated types of suits, for instance consent decrees, class actions, shareholder derivative suits, and compromises of bankruptcy claims . . . requires [sic] court approval." *Id.* This is because a consent decree is "not simply a settlement between two parties." *In re Dalen*, 259 B.R. 586, 605 (W.D. Mich. 2001). "Rather, it is an order which implicitly, if not explicitly, approves a settlement which is incorporated into its provisions." *Id.* "Because it is

entered as an order of the court, the terms of a consent decree must also be examined by the court." *Smyth v. Rivero*, 282 F.3d 268, 280 (4th Cir. 2002), *cert. denied*, 123 S.Ct. 112 (2002). As the Sixth Circuit Court of Appeals aptly observed in *United States v. Miami*, 664 F.2d 435, 440-41 (5th Cir. 1981):

> The court, however, must not merely sign on the line provided by the parties. Even though the decree is predicated on consent of the parties, the judge must not give it perfunctory approval. . . . Because the consent decree does not merely validate a compromise but, by virtue of its injunctive provisions, reaches into the future and has continuing effect, its terms require more careful scrutiny. Even when it affects only the parties, the court should, therefore, examine it carefully to ascertain not only that it is a fair settlement but also that it does not put the court's sanction on and power behind a decree that violates the Constitution, statute, or jurisprudence. This requires a determination that the proposal represents a reasonable factual and legal determination based on the facts of record, whether established by evidence, affidavit, or stipulation. If the decree also affects third parties, the court must be satisfied that the effect on them is neither unreasonable nor proscribed.

See also Smyth, 282 F.3d at 280 (citing with approval *United States v. Miami*). As the court noted in *In re Dalen*, 259 B.R. at 606, courts must consider the terms of a consent decree before entry because the provisions of the decree will inevitably affect persons other than those who were the immediate parties to the agreement. *See also Commonwealth v. O'Neill*, 100 F.R.D. 354, 356 (E.D. Pa. 1983), *aff'd*, 746 F.2d 1465 (3d Cir. 1984) (court required to consider the rights and positions of other parties affected by the proposed decree).

The Fourth Circuit has noted that in entering a consent decree, "a district court should ~~not blindly~~ accept the terms of

a proposed settlement." *United States v. North Carolina*, 180 F.3d 574, 581 (4th Cir. 1999). "Rather, before entering a consent decree the court must satisfy itself that the agreement 'is fair, adequate, and reasonable' and 'is not illegal, a product of collusion, or against the public interest." *Id.* (citation omitted).[5]

The MercExchange/RetumBuy settlement and license agreements comprehensively cover the rights, duties and obligations of MercExchange and insolvent RetumBuy. MercExchange could have, and should have, left it at that. However, when MercExchange asked the Court to sign a consent judgment loaded with extraneous and prejudicial statements, it required the Court to evaluate and consider the extraneous language.

B. The Consent Judgment and Order's extraneous statements are improper.

"[B]efore entering a consent decree, the court must satisfy itself that the agreement 'is fair, adequate, and reasonable." *United States v. North Carolina*, 180 F.3d at 581 (citation omitted). The extraneous statements in MercExchange's proposed Consent Judgment are neither fair, reasonable, nor necessary. MercExchange was free to drop its claims against insolvent ReturnBuy for no cost, and to enter into a license agreement with the dissolving company—but it cannot demand that the Court to make incorrect statements about the patents, and the rights of third parties, as a condition of dismissal. ReturnBuy's "confessions" were the product of a

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[5] Although the district court need not conduct a "rehearsal" of the trial, a court should consider the strength of the plaintiff's case including (1) the extent of discovery that has taken place, (2) the stage of the proceedings, and (3) the want of collusion. *Id.* In short, the standard presents a two part inquiry: (1) is the agreement illegal, collusive, or otherwise against public policy and (2) is it fair, adequate, and reasonable. *Am. Canoe Assoc., Inc. v. United States EPA*, 54 F. Supp. 2d 621, 625 (E.D. Va. 1999).

shotgun marriage, and the Court should not adopt them in a Court order.

1. *The Court should not sign an order stating that the '265 patent is "valid an enforceable."*

The Consent Judgment and Order states "ReturnBuy also consents to a judgment that the '265 patent is valid and enforceable. . . ." Proposed Consent Judgment and Order. Such statements, based solely on the sham "confession" of an insolvent company, are improper, and the Court should strike them. The U.S. Supreme Court has recognized that "[a] patent by its very nature is affected with a public interest." *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971) (citing *Precision Instrument Mfg. Co. v. Automotive Maint. Machinery Co.*, 324 U.S. 806, 816 (1945)). The Federal Circuit has since noted, "[a]fter Blonder-Tongue, the 'public policy' import of validity rulings (especially those finding patents invalid) has grown substantially." *Morton Int'l, Inc. v. Cardinal Chem. Co.*, 967 F.2d 1571, 1575 n.6 (Fed. Cir. 1992).

Here, the Court has not yet adjudicated whether the '265 patent is valid and enforceable, and need not, and should not, comment on those issues in any order addressing the ReturnBuy/MercExchange pact.

2. *The Court should not sign an unnecessary injunction, much less one addressing third-parties and expanding the scope of the '265 claims.*

The proposed Consent Judgment and Order enjoins insolvent RetumBuy, and addresses the rights of third parties, who neither negotiated the settlement and license nor assented to their terms. Moreover, in addressing these rights, the terms of the Consent Judgment and Order expand the enjoined conduct beyond the scope the Court's construction of the '265 claims.

The second paragraph of the proposed Consent Judgment and Order states:

> ReturnBuy further agrees and stipulates that it, its officers, agents, servants, employees, and attorneys, and any persons in active concert or participation with them who receive actual notice of this judgment are permanently enjoined from infringing the above claims of the '265 Patent by making, using, selling or offering for sale a computer-implemented service, system, and or process(es) which facilitates the posting of items or goods for sale *or auction through or by an electronic online market or auction, that also employs a digital imaging means and a textual description of the item or good for sale or auction, and any colorable variations thereof* (Emphasis added).

These extraneous statements conflict with due process, are contrary to public policy, and impermissibly expand the scope of the '265 claims.

First, MercExchange has no need for an Federal Court injunction against insolvent RetumBuy, which is now licensed to practice MercExchange's patents. (McFarland Decl. Exs. 2 and 3). In the highly unlikely event that MercExchange and insolvent ReturnBuy have a disagreement in the future, they may resolve it in a breach of contract action under the License and Settlement Agreements—no separate Federal Court injunction is appropriate or necessary. (McFarland Decl. Exs. 2 and 3). The gratuitous "injunction" that MercExchange asks the Court to enter is a thinly-veiled effort to create the impression that the Court believes that the '265 patent is valid, infringed, and enforceable, and to prejudice eBay. (MercExchange's allegations against eBay are based in part on the underlying conduct of insolvent ReturnBuy.) The injunction is improper and unnecessary, and the Court should not enter it.

Second, the Consent Judgment should not make any statement regarding the rights of third parties, who have had no opportunity to litigate or address the issues addressed in MercExchange's proposed Consent Judgment and Order.

Third, the Consent Judgment should not make any statement purporting to expand the scope of the '265 claims beyond the Court's *Markman* construction. Rather than address the Court's *Markman* ruling, MercExchange's Consent Judgment purports to summarize the '265 patent claim language and attempts to enjoin "*any colorable variations thereof*" Such a vague extension of the '265 claims is impermissible and unenforceable.

Accordingly, the Court should strike the extraneous statements in MercExchange's proposed Consent Judgment and Order, and simply enter an order dismissing the case between MercExchange and ReturnBuy. Alternatively, the Court should reserve comment until the case, including the '265 patent, are litigated and resolved on the merits.

IV. CONCLUSION.

MereExchange and insolvent ReturnBuy were free to settle the case, but they cannot ask the Court to make improper statements regarding third parties or the '265 patent's scope, validity, enforceability, or alleged infringement. Thus, the Court should strike the extraneous statements included in the proposed Consent Judgment and Order and simply dismiss MercExchange's claims against ReturnBuy. Alternatively, the Court should simply wait until the remainder of the case, including the validity, enforceability, and alleged infringement of the '265 patent, is resolved on the merits.

Dated: January 21, 2003 Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., HALF.COM, INC.,
AND RETURNBUY, INC.,

Defendants.

PLAINTIFF'S REPLY MEMORANDUM IN FURTHER SUPPORT OF ITS MOTION FOR LEAVE TO SUBMIT SUPPLEMENTAL EXPERT TESTIMONY AND FOR FURTHER RECONSIDERATION OF THE COURT'S ORDERS OF OCTOBER 21, 2002, AND JANUARY 13, 2003

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* * * *

to-person" system. Presumably, when used in contrast to the Court's construction of an "auction" over a -trusted network" or through a "trusted intermediary," it means that a "person-to-person" system does not employ an intermediary. But, of course, eBay has admitted that it is an "online intermediary." After all, what is the reason for eBay's existence? It facilitates online auctions between buyers and sellers, i.e., "persons." eBay's entire business model, in fact, derives revenue from the services it provides those "persons" and the fees it charges. Accordingly, any discussion of a "person-to-person" system bears no resemblance to eBay under the Court's apparent use of that phrase.

F. The Court Has Never Defined What It Meant By The Imported Claim Terms "Trusted Intermediary" or "Trusted Network"

Thus, MercExchange is confronted with a fundamental due process problem. The Court has imported the elements of "trusted intermediary" or "trusted network" into the claim term "auction."[6] But the Court has never provided a definition

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2001) and *Scimed Life Sys., Inc. v. Advanced Cardiovascular Sys., Inc.*, 242 F.3d 1337, 1344 (Fed. Cir. 2001), as confined to their facts. *Id*

for "trusted intermediary" or "trusted network," and MercExchange is left without any substantial basis upon which to establish these undefined elements. Obviously, it is MercExchange's burden to prove infringement. MercExchange does this by applying the properly construed claims to the accused device or system. *See CCS Fitness, Inc. v. Brunswick Corp.*, 288 F.3d 1359, 1365 (Fed. Cir. 2002). Thus, as a fundamental matter, MercExchange must know what it is that it is required to prove.

As a preliminary matter, for example, Plaintiff observes that nowhere in the entire specification or prosecution history does the imported claim element "trusted intermediary" appear.[7] Is Plaintiff to assume that "trusted intermediary" has its plain and ordinary meaning? So, for example, Plaintiff may establish that this element is present by demonstrating that the accused system of eBay promotes "trust," *i.e.*, it is "one in whom confidence is placed," *see* Webster's II, New Riverside University Dictionary (2d ed. 1988) at 1240, and that an "intermediary" is simply "one that acts as an agent between persons." at 637. Or did the Court have some other construction in mind?

Certainly the Court in its *Markman* Ruling identified exemplary specification passages, including the "summary of the invention" section, from which it concluded that everything

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[6] The Court's *Markman* Ruling also imported those limitations into the claim terms "electronic auction," "electronic market," and "market for goods"—claim terms that collectively appear in all 135 claims in three separate patents in suit. *See Markman* Ruling at 12, 13 and 36. Under the Court's rationale, since all of Mr. Woolston's patents and pending patent applications rely on the same common specification from which the Court gleaned this limitation, every other issued patent, or any patent that will ever issue to Mr. Woolston, will contain the implied limitation, "trusted intermediary" or "trusted network." Such an interpretation cannot be sustained under settled Federal Circuit precedent.

[7] For that matter, the word "intermediary," "intermediation," or "intermediate" does not appear anywhere in the specification.

in the patents "revolved around a trusted intermediary." *See Markman* Ruling at 12. Indeed, it appears that the Court cited to some *eleven* separate embodiments that the inventor included in the specification which the Court deemed would promote "trust" over the network. *See id. at* 11-12. Was this list of examples intended to be exhaustive of the ways in which Plaintiff might establish the "trusted intermediary" or "trusted network" elements? Must Plaintiff establish that *all these embodiments* are present in the accused system, or may Plaintiff merely establish that a preponderance of these examples are present (say 6 out of 11)? May Plaintiff rely on other examples in the specification in which the inventor disclosed embodiments that would promote trust?[8] If so, how many "trust-promoting" embodiments must Plaintiff prove from the specification? All of them? Most of them? Or does this discussion highlight the very problem that arises when extraneous limitations are imported into clear claim language? As the Federal Circuit has observed,

> The danger of improperly importing a limitation is even greater when the purported limitation is based upon a

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[8] For example, Mr. Woolston discloses that consignment nodes may be required to take "licenses," Col. 4,11.53-55, that participants must give "log on responses," Col. 9,11. 19-22, participants may be required to provide credit card numbers, Col. 9,11.23-25, give PIN numbers, user IDs and the like to grant access privileges, *id.*, participants may be required to utilize an "interface program," Col. 9,11.25-26, the consignment node operator may identify an authorized posting terminal code, Col. 17,11. 37-40, it may police the network and revoke privileges for participants who abuse their services, Col. 4,11.55-57, it may maintain a historical database of past sales, Col. 10,11. 39-43, it may utilize "encryption techniques," to provide reliable verification techniques, Col. 12, 11. 40-43, and it may not reveal your credit card information to third parties, Col. 18, 11.50-52. These, plus dozens of other examples disclosed in the specification, were all intended to promote trust within the network envisioned by Mr. Woolston.

Nevertheless, it does not mean that all of these embodiments are necessarily imported into the claims

> term not appearing in the claim. 'If we once begin to include elements not mentioned in the claim in order to limit such claim . . . we should never know where to stop.'

Amgen, Inc. v. Hoechst Marion Roussel, Inc., F.3d ____, 2003 WL 41993 (Fed. Cir., January 6, 2003) (quoting *Johnson Worldwide Assocs., Inc. v. Zebco Corp.*, 175 F.3d 985, 990 (Fed. Cir. 1999)) (quoting *McCarty v. Lehigh Val. R.R.*, 160 U.S. 110, 116 (1895)).

May Plaintiff also point to other examples in the accused systems of eBay that promote "trust," albeit not disclosed in the patents' specification? After all, the Federal Circuit's precedent is clear that "claims are not perforce limited to the embodiments disclosed in the specification." *Id. at* *9; *see also Rexnord Corp. v. Laitram Corp.*, 274 F.3d 1336, 1344 (Fed. Cir. 2001) ("[A]n applicant is not required to describe in the specification every conceivable and possible future embodiment of his invention."). Thus, for example, were eBay to employ other methods to promote trust as it intermediated the online auctions on its website, Plaintiff would clearly be free to establish the "trusted intermediary" element through proof of those methods, one would assume.

As a practical matter, therefore, Plaintiff requires further guidance as to what it must prove to establish infringement of the patents in suit. Indeed, as demonstrated by eBay's motions for summary judgment of noninfringement, it has treated the imported claim element "trusted intermediary" as an empty vessel into which it may pour any definition it wishes, as long as it does not remotely resemble eBay's operations. Accordingly, eBay's arguments with respect to "trusted intermediary" have been reduced to a simplistic formula: "Mr. Woolston believe(s) that people lie, cheat and steal." *See* eBay's so-called "Motion to Enforce Judge Friedman's September 19 and 22 Orders" at 4. Whereas eBay

believes "that people are basically good." *Id.* Apparently, the trial will rum on those issues if eBay has its way.[9]

But clearly the purpose of a claim construction is not to foster further ambiguity. The purpose of a claim construction is to define terms such that the Plaintiff understands what it must prove, and eBay may understand whether its system infringes. Unfortunately, that is not what has occurred here.

Indeed, the problem has been further exacerbated by the Court's interpretation that the patents in suit "teach away" from a "person-to-person" system. *See Markman* Ruling at 12. First, as noted above, there is no such concept of a patent "teaching away" from a device or system. Second, the Court nowhere defines what it considers a "person-to-person" system to be. Presumably, it stands in contradistinction to a "trusted intermediary" system. But as noted above, the Court has not defined that "claim" element either. If the Court meant a "person-to-person" system to be one in which an individual seller directly contacts individual buyers and offers a good for sale or auction, then that clearly is not the system provided by eBay. eBay obviously provides a service for which it charges its fees and commissions. eBay obviously acts as an "intermediary" between those individuals. In fact, it admits as much in its SEC filings where it concedes it is an "online intermediary."

Moreover, in the Court's January 13 Order, the Court now appears to be incorporating a specific type of transaction into its definition of "trusted intermediary." *See* January 13 Order at 7. The Court referenced its "trusted intermediary" construction by noting its belief that "*[f]or example*, in the auction mode, once the bidding has closed and a sale has been

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[9] Those same basically "good people" flooded eBay last week with offers to sell pieces of the doomed Columbia shuttle. What was eBay's reaction: it "policed its network" and shut down the sales, just as taught by Mr. Woolston's '051 Patent. *See* Col. 4,11.55-58.

made, the buyer transfers his payment to the consignment node or trusted intermediary. The consignment node then takes his commission or fee, and transfers the remainder of the purchase price to the seller." *Id.* MercExchange assumes the Court utilized the words "for example" to illustrate that this is one manner in which a particular transaction may occur that would constitute a "trusted intermediary." For if the Court meant otherwise, its importation of this specific definition into the '176 and '265 Patents would make no sense. The '176 Patent claims do not even require a transaction, as the Court observed. *Id.* at 29. The '176 Patent is addressed to using a search agent to search a plurality of electronic markets or electronic auctions for a particular item for sale or auction. The patent addresses only the searching, not the sale. Further, the '265 Patent is completely silent with respect to accounts or commissions. All that is required by the claims of that patent is that goods be posted for sale via an electronic market and a transaction be processed. Nevertheless, if the Court's definition as provided in its January 13 Order was the exclusive definition for the term "trusted intermediary," then it could have no possible relevance to the other two patents in suit. Thus, MercExchange assumes that it was not the Court's intention to define "trusted intermediary" in terms of a specific type of transaction.

In sum, MercExchange respectfully requests that the Court provide some guidance with regard to what it means when it utilizes the various terms "trusted intermediary," "trusted network," or "person-to-person," for that matter. MercExchange must establish by a preponderance of the evidence that the defendants' accused systems meet those limitations. At a minimum, it should be entitled to know what it needs to prove.[10]

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[10] Plaintiff respectfully suggests that the discussion above demonstrates the type of mischief that is created when extraneous limitations are

III. CONCLUSION

For these reasons, MercExchange respectfully requests that the Court accept the proffered supplemental expert testimony of its expert witnesses, and to give further reconsideration to its orders of October 21, 2002, and January 13, 2003.

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imported into clear claim terms. The Federal Circuit emphasized as much in its recent decision reversing Judge Payne in this Court. Plaintiff appreciates that the Court has had little time to address the multiple, complex issues that have arisen in this patent infringement lawsuit. The problem has been compounded, of course, by the defendants' unwillingness to fairly and accurately provide the Court with the appropriate legal standards. And the Court has apparently been misled by defendants' "teaching away" argument.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC.,et al.,
Defendants.

ORDER AND OPINION

Presently before the court are three Motions for Summary Judgment filed by the parties, and one Motion to Reconsider filed by the plaintiff. First, eBay, Inc. ("defendant" or "eBay") has filed a Motion for Summary Judgment of Noninfringement and Unenforceability of U.S. Patent No. 6,202,051 ("the '051 patent"). Second, eBay, together with Half.com ("defendants"), have filed a Motion for Summary Judgment of Noninfringement of claims 8-11, 13-14, 15-18 and 26-29 of U.S. Patent No. 5,845,265 ("the '265 patent"). Third, MercExchange, LLC ("plaintiff") has filed a Motion for Partial Summary Judgment of Willful Infringement of the '265 Patent. Finally, the plaintiff has filed a Motion for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003.

I. Factual Background

The factual and procedural history of this case has been fully discussed in the court's prior opinions and does not need to be reiterated here.

* * * *

the issues involved in this patent as best they can so that a jury will be able to understand and ultimately decide them at trial.

In sum, the defendants' Motion for Summary Judgment of Noninfringement of claims 8-11, 13-14, 15-18 and 26-29 of the '265 patent and the plaintiffs Motion for Partial Summary Judgment of Willful Infringement of the '265 Patent are DENIED.

III. Plaintiff's Motion for Leave to Submit Supplemental Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003

A. Standard of Review

As this court explicitly stated in the plaintiff's first Motion to Reconsider, entered on January 13, 2003, motions to reconsider are "heard only where the Court has patently misunderstood a party or where there is a significant change in the law or facts of the case." *Religious Tech. Ctr. v. Lerma*, 908 F. Supp. 1253, 1355 (E.D. Va. 1995) (internal quotations omitted). They "cannot be granted where the moving party simply seeks to have the Court rethink what the Court ha[s] already thought through." *Xoom, Inc. v. Imageline, Inc.*, 93 F. Supp. 2d 688, 696 (E.D. Va. 1999) (internal quotation omitted). In this case, the plaintiff argues that it has new evidence, in the form of supplemental expert opinions, which supports its position that there is an adequate written description for debiting/charging a seller's account a commission or fee.

B. Analysis

As an initial matter, the court notes that this Motion is essentially a Motion to Reconsider the court's ruling on the plaintiff's Motion to Reconsider. The plaintiffs argument that it now has new evidence is of no consequence because the

first Motion to Reconsider was filed by the plaintiff. The plaintiff had every opportunity to submit new evidence in conjunction with that Motion. For some reason, however, the plaintiff asserts that the basis for which the court ruled upon in the Motion to Reconsider was not fully argued or briefed. The court is at a loss as to how this is possible. Not only were the issues fully briefed and argued last spring, they were further argued during the *Markman* hearing held during the summer. Moreover, the court issued its October 21, 2002 Order shortly after it entered its ruling on the *Markman* hearing. The plaintiff filed its Motion to Reconsider after all of this took place. So to now argue that the issues were not fully briefed is inaccurate. If the plaintiff had "new evidence" to support its position, it should have filed it with its first Motion to Reconsider. The court will not continue to allow the plaintiff to attempt to reopen previously ruled-upon motions whenever it receives an adverse ruling. At this juncture, "the proper recourse is appeal—not reargument." *Johnson v. City of Richmond*, 102 F.R.D. 623, 624 (E.D. Va. 1984). Therefore, the plaintiff's Motion to Supplement Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003 is denied.

As an additional matter, in the plaintiff's Reply memorandum to this Motion, it launches into a diatribe regarding the court's *Markman* Opinion, objecting to the claim construction premise that the inventor's intended his system to occur over a trusted network or with a trusted intermediary. *See* Pl.'s Reply, Dkt. 271, pp. 11-20. The court finds this portion of the Reply completely inappropriate. First, raising an issue regarding the *Markman* Opinion in a Reply brief to a Motion to Reconsider a summary judgment ruling is improper. eBay has since filed an Application for Leave to Submit Objections to MercExchange's Request to Reconsider the Markman Ruling Included in MercExchange's Feb. 6, 2003 Reply, strenuously objecting to the 'plaintiffs actions here. While the practice of continued filing of responsive pleadings is not looked upon

favorably by the court, in this instance, based on the plaintiffs actions of improperly raising new issues in its Reply, the court grants eBay's Application and deems the Objection filed. Second, in numerous motions and letters submitted to the court since the *Markman* Opinion was entered, the plaintiff has yet to raise a challenge to the claims constructions therein. Moreover, in the plaintiff's own post-*Markman* Motion for Partial Summary Judgment, it argues that eBay is a trusted network and acts as a trusted intermediary. How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it lacks any substantial basis upon which to proceed is completely disingenuous.[2] Thus, it is wholly improper for the plaintiff to now raise the issue of claims construction in conjunction with this Motion, and the court denies any request to further explain the *Markman* decision.[3]

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[2] In addition, plaintiff's counsel has commented to the press that the court's ruling that an auction occurs over a trusted network will help the plaintiff as it will require eBay to argue that it is not trusted. *See* CNET News.com, *eBay Patent Case Moves Closer to Trial* (Oct. 25, 2002), *available at* http://news.com.com/2100-1017-963434.html ("As part of his Markman decision, Friedman ruled that the term 'auction' as used in MercExchange's patents means a 'trusted network or . . . intermediary.' Although MercExchange argued against this interpretation, Robertson said it will work in the company's favor. The ruling puts eBay in the position of having to argue that it is not a trusted network, he said.").

[3] The newly decided cases cited by the plaintiff in this portion of the Reply memorandum, *see Rambus, Inc v. Infineon Tech., AG*, F.3d 2003 WL 187265 (Fed. Cir. Jan. 29, 2003) and *Amgen, Inc. V. Hoechst Marion Roussel, Inc.*, F.3d 2003 WL 41993 (Fed. Cir. Jan. 6, 2003), do not affect the court's *Markman* holding and cases cited therein. Therefore, these cases cannot serve as a basis for the improperly requested reconsideration of the *Markman* Opinion.

C. Attorneys' Fees and Costs

Finally, eBay has asked for the court to award it attorneys' fees and costs in opposing this motion pursuant to 28 U.S.C. § 1927. Section 1927 provides that

> '[a]ny attorney or other person admitted to conduct cases in any court of the United States or any Territory thereof who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorney's fees reasonably incurred because of such conduct.

28 U.S.C. § 1927 (West. 1994). The award of sanctions under section 1927 is in the discretion of the district court. *See Chaudhry v. Gallerizzo*, 174 F.3d 394, 410 (4th Cir. 1999). Section 1927 was enacted to sanction attorneys who "unreasonably extend court proceedings." *Roadway Express, Inc. v. Piper*, 447 U.S. 752, 757, 100 S. Ct. 2455 (1980); *see also DeBauche v. Trani*, 191 F.3d 499, 511 (4th Cir. 1999) ("The unambiguous text of § 1927 aims only at attorneys who *multiply* proceedings.") (emphasis in original); *Knorr Brake Corp. v. Harbil Inc.*, 738 F.2d 223, 226 (6th Cir. 1984) ("A court may impose section 1927 fees only to sanction needless delay by counsel."). Further, a court must find that the attorney acted in bad faith as a prerequisite to awarding fees under section 1927. *See Chaudhry*, 174 F.3d at 411 n. 14 (quoting *Brubaker v. City of Richmond*, 943 F.2d 1363, 1382 n. 25 (4th Cir. 1991)); *accord Knorr*, 738 F.2d at 227.

In this case, the plaintiff filed not only one Motion to Reconsider this court's Opinion, but a second Motion to Reconsider the court's ruling in the first Motion to Reconsider. The court fully explained to the plaintiff in the first Motion to Reconsider that motions to reconsider are not appropriate where a party simply asks the court to rethink what it has already decided. The court warned the plaintiff the proper recourse

was appeal, not reargument. However, despite this admonition by the court, the plaintiff filed yet another Motion to Reconsider, albeit styled as a Motion for Leave to Supplement Expert Reports for Further Reconsideration of the Court's Orders. While the court is not inclined to award attorneys' fees at this juncture, the court warns the plaintiff that the filing of any further motions to reconsider in this case without the requisite showing of new evidence or a change in the law will result in the imposition of attorneys' fees and costs.

IV. Conclusion

For the reasons discussed above, the plaintiff's Motion for Leave to File Summary Judgment Response in Excess of 30 Pages is GRANTED. The plaintiff's response and the defendant's reply are ORDERED FILED. Defendant eBay's Motion for Summary Judgment of Noninfringement and Unenforceability of the '051 Patent is GRANTED in part and DISMISSED in part. The defendants' Motion for Summary Judgment of Noninfringement of the '265 Patent is DENIED. The plaintiff's Motion for Summary Judgment of Willful Infringement of the '265 Patent is similarly DENIED. Defendant eBay's Application for Leave to Submit its Objection to MercExchange's Request to Reconsider the *Markman* Ruling is GRANTED. Finally, the plaintiff's Motion to Supplement Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 2002 and January 13, 2003 is DENIED in its entirety.

The Clerk is REQUESTED to send a copy of this Order to counsel of record.

It is so ORDERED.

/s/ [Illegible]
United States District Judge

Norfolk, Virginia
February 14, 2003

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Feb. 26, 2003]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., AND RETURNBUY, INC.,
Defendants.

JUDGMENT AND ORDER

Upon consideration of the consent of defendant ReturnBuy, Inc. ("ReturnBuy"), judgment is entered in favor of plaintiff MercExchange, LLC ("MercExchange") against ReturnBuy for infringement of claims 1, 2, 4, 7, 23, 24, and 25 of United States Patent No. 5,845,265 ("the '265 Patent"). In addition, ReturnBuy also consents to a judgment that the '265 Patent is valid and enforceable and admits that it has practiced at least the claims identified above. ReturnBuy also agrees to a judgment that all of the defenses it has asserted in this action are dismissed with prejudice.

ReturnBuy further agrees and stipulates that it, its officers, agents, servants, employees and attorneys, and any person in active concert or participation with them who receive actual notice of this judgment are permanently enjoined from infringing the above claims of the '265 Patent by making, using, selling or offering for sale a computer-implemented service, system, and/or process(es) which facilitates the posting of items or goods for sale or auction through or by an elec-

tronic online market or auction, that also employs a digital imaging means and a textual description of the item or good for sale or auction, and any colorable variation thereof.

Notwithstanding the foregoing, this injunction is subject to the separate License Agreement and Settlement Agreement entered into by and between MercExchange and ReturnBuy.

Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com and MercExchange in this case.

The Clerk is REQUESTED to send a copy of this Order to counsel of record via facsimile and regular mail.

It is so ORDERED.

/s/ [Illegible]
UNITED STATES DISTRICT JUDGE

Norfolk, Virginia
February 26, 2003

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,
Plaintiff,

v.

EBAY INC., a Delaware Corporation, HALF.COM, INC., a Pennsylvania Corporation, and RETURNBUY, INC., a Delaware Corporation,
Defendants.

EBAY AND HALF.COM'S MEMORANDUM IN SUPPORT OF ITS EXPEDITED MOTION TO ENFORCE JUDGE FRIEDMAN'S FEBRUARY 14, 2003 ORDER AND OBJECTION TO MERCEXCHANGE'S RENEWED ATTEMPT TO RELITIGATE AND REOPEN THE MOTION-TO-RECONSIDER THE MOTION-TO-RECONSIDER AND MARKMAN PROCEEDINGS.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIES EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER

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I. INTRODUCTION.

eBay and Half.com respectfully request the Court enforce its February 14, 2003 order, and: (1) reject MercExchange's new attempt to relitigate the '051 patent and MercExchange's motion-to-reconsider MercExchange's motion-to-reconsider, and (2) reject MercExchange's new attempt to relitigate, reopen, reconsider, and disavow the Court's '265 patent *Markman* decision:

- First, on February 26, 2003, MercExchange *again* attempted to submit the "new Weaver testimony" that the Court correctly struck from the record on February 14, 3003, and continued to litigate the '051 patent. Ignoring the Court's order, MercExchange's counsel, Mr. Robertson, complained about the Court, proclaimed that Judge Friedman would be "reversed," and announced that he was *again* submitting the "new" Weaver testimony and other '051 arguments to "complete" the "record." Thus, contrary to the Court's orders, Dr. Weaver offered his "new" opinion yet again, and proclaimed that he "may testify" about it.
- Second, on February 28, 2003, MercExchange *again* sought to reopen, reconsider, and relitigate the '365 patent *Markman* proceedings, and disavow what MercExchange itself repeatedly argued to the Court. For many months, the parties and the experts agreed and proceeded with the claim construction that *both parties* adopted pre-*Markman*—the '365 patent "market for goods . . . for sale" covers only sales, i.e. *fixed price*. In fact, before and after *Markman*, MercExchange told the Court, eBay, and the media that until eBay adopted the "Buy-It-Now" feature, eBay "did not operate as an 'electronic market' as claimed in the '365 Patent because eBay's system did not allow users to list an item *for sale at a fixed price*." On the eve of trial, now that the '051 patent has been invalidated, MercExchange seeks to disavow its previous statements, reopen and relitigate *Mark-*

> *man*, and propose an entirely new infringement and damages theory—*which would increase MercExchange's alleged "damages" by over 400%, or an additional $130 million.*

MercExchange's tactics are inexcusable. Its motion-to-reconsider was inappropriate and unfounded. MercExchange's motion-to-reconsider the motion-to-reconsider was unprecedented and improper, and its reply brief—an angry diatribe against the Court's *Marknian* ruling—was completely inappropriate. MercExchange's decision to *ignore Judge Friedman again* and submit the excluded '051 declaration (with Dr. Weaver's statement that he may testify about it and the '051 patent anyway) is unbelievable. Finally, MercExchange's attempt to reopen relitigate and disavow the '265 *Markman* ruling, with *admittedly* new claim construction theories proposed for the first time on February 27, 2003—is completely inappropriate, and MereExchange's attempt to blame Judge Friedman for it is disingenuous at best. *Markman* is over, and MercExchange cannot reopen and relitigate it now.[1]

Thus, eBay respectfully requests the Court strike the February 26 and 27, 2003 MercExchange expert reports, and order MercExchange to pay the costs and attorneys fees that eBay and Half.com have incurred in opposing Merc-

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[1] Dr. Weaver's new February 26, 3003 report proclaims that "it is inexcusable for eBay to spend millions of dollars of its shareholders' money defending a patent infringement lawsuit that could be avoided by implementing an $8000 change to its systems." (Zahn Decl. Ex. 11 (Weaver Report ¶75 (Feb. 27, 2003)). The cost in defending this lawsuit has been enormous, and inexcusable. MercExchange forced defendants to incur enormous expense by (1) refusing to accept the Court's rulings, (2) withholding its post-Markman contentions, and (3) forcing defendants to litigate a host of smoke-screen issues, including MercExchange's meritless motion to disqualify Commissioner Mossinghoff over the holiday season (a motion that, the Court noted, MercExchange had filed for tactical reasons).

Exchange's repeated, unjustified efforts to relitigate the Court's orders and distort the record for MercExchange's threatened appeal.[2]

II. BACKGROUND.

A. After the Court's October 2002 *Markman* and summary judgment order, eBay repeatedly asked MercExchange to supplement its expert disclosures, and MercExchange repeatedly refused to do so.

The Court issued its *Markman* decision in October, *four months ago*. Although MercExchange bears the burden of proof on infringement and damages, MercExchange refused to provide post-*Markman* supplemental reports, despite defendants' *repeated* requests for them. MercExchange initially proclaimed that its *pre-Markanan* expert reports somehow "anticipated" the Court's decision on all issues, all elements, and all claims. eBay repeatedly argued that the parties should take the Court's *Markman* decision into account.

> As the Court's *Markman* ruling will obviously have a significant impact on the case, scheduling any of the expert discovery dates to occur before the Court's *Markman* ruling, as you propose, is prohibitively expensive, and would waste the time and resources of the parties and the experts. With the trial date set to take commence

[2] Along with Dr. Weaver's improper report, MercExchange also served a "new" expert report from a patent lawyer, Mr. Adelman, regarding the inequitable conduct on the '051 patent. Mr. Adelman's report is months late, and merely adopts, almost verbatim, MercExchange's prior erroneous arguments. Mr. Adelman's report is not, and cannot be, part of any record for appeal. As the Court noted in addressing the 112 ruling: "The plaintiff had every opportunity to submit new evidence in conjunction with that Motion. . . . If the plaintiff had 'new evidence' to support its position, it should have filed it with its first Motion to Reconsider. The court will not continue to allow the plaintiff to attempt to reopen previously ruled upon motions whenever it receives an adverse ruling." Order (Feb. 14, 2003) at 7.

> on April 22 3003, eight months from now, the parties should wait for Judge Friedman's *Markman* ruling before completing expert disclosures and taking expert depositions.

(Zahn Decl. Ex. 1 (Letter from Jeffrey Randall to Gregory Stillman) (Sept. 35, 2002)).

> In view of the Court's ruling, the April 22, 2003 trial date, and the impending *Markman* ruling, we see no reason to spend thousands of dollars and waste the time of the experts rushing to provide "rebuttal" reports, which would have to be revised following the Court's *Markman* decision.
>
> Moreover, any pretrial schedule that would ignore the tremendous effort that Judge Friedman is putting into the *Markman* ruling strikes us as wasteful and unwise, and we are quite surprised that MercExchange would suggest it.

(Zahn Decl. Ex. 3 (Letter from Jeffrey Randall to Gregory Stillman) (Sept. 26, 2002)). (Zahn Decl. Ex. 3 (Letter from Jeffrey Randall to Gregory Stillman) (Oct. 31, 3003) (arguing that Judge Friedman intended the parties to "complete expert disclosures, taking into consideration the Court's recent *Markman* ruling")); (Zahn Decl. Ex. 4 (Letter from Jeffrey Randall to Judge Friedman) (Oct. 21, 3003) ("Unfortunately, the case cannot progress so long as MercExchange refuses to acknowledge the Court's September 19 order, [and] insists that the experts cannot address the Court's *Markman* ruling . . . eBay cannot fathom that the Court intended the parties and the experts to ignore the Court's comprehensive, 56-page *Markman* ruling")); (Zahn Decl. Ex. 5 (Letter from Jeffrey Randall to Gregory Stillman) (Oct. 23, 2002) (objecting to MercExchange's proposed schedule which "did not acknowledge the obvious impact of Judge Friedman's October 18, 3002 *Markman* ruling.")).

However, MercExchange refused to supplement its expert reports to address the Court's *Markman* ruling, maintaining:

> We see no reason to delay the final phase of the Rule 26(a)(2)(B) disclosures [to wait for the *Markman* decision] as those disclosures are merely replies to the rebuttal reports submitted on June 28 [prior to Markman]. *We do not believe that the Markman ruling could or should impact those reports.*

(Zahn Decl. Ex. 6 (Letter from Gregory Stillman to Jeffrey Randall) (Sept. 35, 2003) (emphasis added)). MercExchange's refusal to comply with the Court's *Markman* ruling left eBay without any prior notice of MercExchange's true infringement contentions.

In late November 3002, after Markman, MercExchange represented that it had "*fully disclosed its contentions and expert testimony*" and would not supplement its expert reports to address the Court's *Markman* ruling. (Zahn Decl. Ex. 7 (Letter from Jeffrey Randall to Gregory Stillman) (Nov. 37, 2003) (emphasis added) and Ex. 8 (Letter from Gregory Stillman to Jeffrey Randall) (Dec. 3, 2002) (emphasis added)).

MercExchange forced eBay to raise the matter yet again with the Court, which held: "*[T]his court's claims constructions in the Markman Opinion shall be taken into account in any remaining discovery matters, as well as all pretrial preparation.*" (Zahn Decl. Ex. 9 (Letter from Judge Friedman to the parties) (Nov. 22, 2002) (emphasis added)). Judge Friedman's November 22, 2002 order was crystal clear, but MercExchange did not respond to it, maintaining that its *pre*-Markman disclosures somehow anticipated the Court's *Markman* ruling.

Instead, MercExchange announced to the media that all three patents were ready for trial, and filed motion, after motion, after motion, to reconsider the Court's '051 summary judgment ruling.

B. After proclaiming that it had anticipated the *Markman* ruling all along, MercExchange launched into a diatribe regarding it.

While MercExchange was proclaiming to eBay that it had "fully anticipated" all of Judge Friedman's *Markman* rulings, and boasting to the national media that all three patents were heading to trial, MercExchange launched a completely inappropriate ten-page diatribe against Judge Friedman's *Markman* ruling, arguing that it deprived MercExchange of "due process" and that MercExchange "is left without any substantial basis" to proceed. (Merc. Reply (Feb. 6, 2003) at 15).

The Court correctly noted that MercExchange was speaking out of both sides of its mouth, and its diatribe against the Court and the *Markman* ruling was completely inappropriate:

> As an additional matter, in the plaintiff's Reply memorandum to this Motion, it launches into a diatribe regarding the Court's *Markman* Opinion, objecting to the claim construction premise that the inventor intended his system to occur over a trusted network or with a trusted intermediary. *See* Pl.'s Reply, Dkt. 371, pp. 11-20. The court finds this portion of the Reply completely inappropriate. First, raising an issue regarding the *Markman* Opinion in a Reply brief to a Motion to Reconsider a summary judgment ruling is improper. . . . Second, in numerous motions and letters submitted to the court since the *Markman* Opinion was entered, the plaintiff has yet to raise a challenge to the claims constructions therein. Moreover, in the plaintiff's own post-*Markman* Motion for Partial Summary Judgment, it argues that eBay is a trusted network and acts as a

> trusted intermediary. How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it lacks an substantial basis upon which to proceed is completely disingenuous.

(February 14, 2003 Order at 7-8).

C. The Court's February 14, 2003 order properly denied MercExchange's request to submit "new" evidence and opinions from Dr. Weaver.

On January 13, 2003, and again on February 14, 2003, the Court denied MercExchange's motions to reconsider the '051 summary judgment order. The Court's February 14, 2003 order could not have been more clear—the Court denied MercExchange's motion-to-reconsider its motion-to-reconsider in its entirety, *and denied MercExchange's request to file the "new" joint declaration from Drs. Weaver/Palmer*. The Court noted:

> If the plaintiff had "new evidence" to support its position, it should have filed it with its first Motion to Reconsider. The court will not continue to allow the plaintiff to attempt to reopen previously ruled-upon motions whenever it receives an adverse ruling. . . . Therefore, the plaintiff's Motion to Supplement Expert Testimony and for Further Reconsideration of the Court's Orders of October 21, 3003 and January 13, 3003 is denied.

(February 14, 3003 Order at 7). The Court also observed that MercExchange was improperly attacking the *Markman* ruling with a lengthy, improper diatribe.

> How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it lacks any substantial basis upon which to proceed is completely disingenuous.

(February 14, 2003 Order at 8).

The Court exercised its discretion and declined to award attorneys' fees to eBay, but warned MercExchange, yet again, that the section 112 dispute was over, and that it must respect the Court's decision or face sanctions:

> In this case, the plaintiff filed not only one Motion to Reconsider this court's Opinion, but a second Motion to Reconsider the court's ruling in the first Motion to Reconsider. The court fully explained to the plaintiff in the first Motion to Reconsider that motions to reconsider are not appropriate where a party simply asks the court to rethink what it has already decided. The court warned the plaintiff the proper recourse was appeal, not reargument. However, despite this admonition by the court, the plaintiff filed yet another Motion to Reconsider, albeit styled as a Motion for Leave to Supplement Expert Reports for Further Reconsideration of the Court's Orders. While the court is not inclined to award attorneys' fees at this juncture, *the court warns the plaintiff that filing of any further motions to reconsider in this case without the requisite showing of new evidence or a change in the law will result in the imposition of attorneys' fees and costs.*

(February 14, 2003 Order at 9-10 (emphasis added)).

D. Defying the February 14, 2003 order, MercExchange attempted to distort the record for appeal and again submitted the "new" '051 Weaver opinions, announcing that Weaver may testify about the '051 patent anyway.

Less than two weeks after the Court denied MercExchange's motion-to-reconsider the motion-to-reconsider, MercExchange's counsel, Mr. Robertson, wrote eBay, complaining about the Court and stating that Judge Friedman would be "reversed" on appeal. Despite Judge Friedman's order, which denied MercExchange leave to submit the

"new" Weaver opinion, Mr. Robertson attempted to submit the "new" Weaver opinion *anyway—as part of new '051 patent expert reports*—to "complete the expert discovery record." (Zahn Decl. Ex. 10 (Letter from Scott Robertson to Jeffrey Randall) (Feb. 36, 3003)).

The "new" February 36, 3003 Weaver expert report complained about the Court's decisions *yet again*, and included an entire section attempting to "incorporate" the "new" section 112 opinions that the Court had already *excluded*:

> The Court has granted in part and denied in part eBay's motion for summary judgment that the claims of the '051 Patent are invalid under 35 U.S.C. 112 para. 1 for lack of an adequate written description. The Court held that the claim term "seller's account" did have an adequate written description and that Dr. Palmer's and my First and Second Joint Declarations supported MercExchange's contention that there is an adequate written description support for the claim terms "debiting a seller's account for a fee amount" and "charging a seller's account a fee amount" in a person-to-person system, but that our First and Second Joint Declarations did not address the issue of adequate written description support for those claim terms in a trusted network or trusted intermediary system. *Thus, Dr. Palmer and I considered the issue in the context of a trusted network or trusted intermediary system in a supplemental Joint Declaration filed on January 23, 2003.* In our opinion, there is an adequate written description within both the April 1995 and November 1995 Application to enable a person of ordinary skill in the art to conclude that Mr. Woolston had a grasp of "debiting a seller's account a fee amount" and "charging a seller's account a fee amount" at the time those applications were filed. *I incorporate all of my prior opinions on this issue herein,*

> *including those set forth in* the Joint Declaration Of Jonathan W. Palmer Ph.D. And Alfred C. Weaver, Ph.D., Second Joint Declaration of Jonathan W. Palmer, Ph.D. And Alfred C. Weaver, Ph.D., and *the Supplemental Joint Declaration Of Jonathan W. Palmer, Ph.D. And Alfred C. Weaver, Ph.D.* and the deposition testimony I gave related to that subject.

(Zahn Decl. Ex. 11 (Supp.Weaver Report) (Feb. 36, 2003) 134 (emphasis added)).

[Throughout this case, I have prepared and submitted numerous declarations and supporting exhibits. *I hereby incorporate each such declaration by reference and may testify to any fact or opinion in any of those declarations.*

(Zahn Decl. Ex. 11 (Supp.Weaver Report) (Feb. 36, 3003) 15 (emphasis added)).

MercExchange's attempt to slip Dr. Weaver's *excluded* opinions into "the record" is inappropriate and inexcusable. MercExchange has no right to relitigate, relitigate, and relitigate these same issues time and again. It has no right to force eBay to incur repeated, unnecessary time and expense in responding to these issues, which have *already* been resolved.[3]

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[3] MercExchange does not understand the scope of the proper "record" for appeal. After the Court's February 14, 2003 order, the '051 summary judgment record for appeal was complete, and included the section 112, noninfringement, and inequitable conduct issues. Dr. Weaver's and Mr. Adelman's late February 26, 2003 expert reports are not, and cannot be, part of any "record" for purposes of appeal.

E. On the eve of trial, MercExchange violated the Court's orders, disavowed its own statements to the Court, and concocted an entirely new '265 case.

1. The parties agreed at *Markman*, and MercExchange expressly represented to the Court, that the '265 "market for goods . . . for sale" covered only *fixed-price* sales.

The '051 patent, which has been held invalid by the Court, covered auction methods. The '265 patent covers sales in a "market for goods . . . for sale"—which the parties agreed, both before, during, and after *Markman*, meant fixed-price sales. Thus, MercExchange *repeatedly* represented to the Court, and to eBay, that eBay did not infringe the '265 patent until it adopted the *fixed-price sales* "Buy It Now" feature.

MercExchange had no choice—after the '265 patent issued, but before eBay adopted the fixed-price "Buy-It-Now" feature, Mr. Woolsion had announced to the WALL STREET JOURNAL that his '265 patent *did not cover eBay*:

> Similarly, while Woolston was publicly proclaiming that the same patent application at issue here covered PriceLine.com, the Wall Street Journal quoted him as stating that eBay did *not* practice the technology in his applications: "Mr. Woolston said he didn't believe online-auction sites like the popular eBay Inc., San Jose, Calif., infringed on his patent technologically."

(Zahn Decl., Exh. 12 (Scott Thurm, *Inventor Disputes Key Auction Patent Field hr Priceline*, THE WALL STREET JOURNAL (Jan. 13, 1999) at B2)).

Thus, MercExchange had to admit at *Markman* that the '365 patent did *not* cover eBay's system until eBay adopted the fixed-price "Bat It Now" feature. MercExchange told the Court at *Markman*:

> eBay's reliance on a 1999 Wall Street Journal article is unavailing. . . . And with respect to the '265 Patent, in

> 1999, eBay operated solely in the "auction" mode. *It was not until November of 2000, when eBay adopted a "market" mode with its "Buy It Now" feature, that they fell within the claims of the '265 Patent.* Accordingly, the statement as incorrectly quoted was believed true at the time it was made.

(Merc. Reply Markman Br. at 30 (July 23, 3003) (emphasis added)).[4]

Throughout the *Markman* proceedings, both parties, and the Court, acknowledged that the '265 "market for goods . . . for sale" was *distinct* and *different* from an auction system, because the '265 "market for goods . . . for sale" requires *fixed-price* sales. At the *Markman* hearing itself, MercExchange's lawyers *again* represented to the Court that the '365 patent "market for goods . . . for sale" covered only *fixed-price* sales. Mr. Robertson said:

> Individuals in Mr. Woolston's inventions can post their good onto this network of—and indicate whether it should be sold *at a market, that is, through a fixed price*, or sold through auctions where participants can bid, and it can go to the highest bidder if, for example, reserve price is met.

(Zahn Decl., Exh. 14 (Markman TR at 41:13-18) (July 30, 2002) (emphasis added)). Mr. Buroker agreed:

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[4] MercExchange's interrogatory responses, *verified by Mr. Woolston*, acknowledged that eBay did not infringe the '265 patent before it added the fixed-price "Buy-It-Now" feature. *See* Zahn Decl. Ex. 13 (MercExchange's Response to eBay's Interrogatory No. 4 (Feb. 20, 2002) ("Notwithstanding eBay's actual notice of MercExchange's rights under the '265 Patent . . *eBay itself implemented the 'Buy It Now' mode for purchase of items listed for sale or auction via the eBay web site in November of 2000, thus bringing its own operations within the scope of the '265 Patent claims*, having full knowledge of MercExchange's rights.")).

> Just to step back and reiterate what Mr. Robertson said earlier, *in the '265 patent, we are not talking about an auction system*, we are talking about a system for presenting items virtually to a market.

(Zahn Decl., Exh. 14 (Markman TR at 90:5-8) (July 30, 2002) (emphasis added)).

2. After *Markman*, in cross-motions for summary judgment, MercExchange continued to represent to the Court that the '265 "market for goods . . . for sale" covered only "Buy-It-Now" and *fixed-price sales*.

For months after *Markman*, MercExchange continued to represent to the Court that the '265 "market for goods . . . for sale" covered only *fixed price sales*. During the September 19, 3003 hearing with Judge Friedman, Mr. Stillman again reiterated that eBay did not infringe the '265 patent in June 2000, because it did not have a *fixed price sales* feature:

> [I]n June of 2000 . . . there was only one patent that had been issued. That was the '265. At that time *we did not believe that eBay infringed the claims of that patent. . .* Then eBay later *adopted the right-now [sic] [Buy It Now] sales format, thereby bringing itself into the scope of the '265 patent as well.*

(Zahn Decl., Exh. 15 (Hearing TR at 3:17-3:8) (Sept. 19, 3003) (emphasis added)).

The Court issued the *Markman* ruling on October 18, 2002. Mr. Robertson, who told the Court during the Markman argument that the '265 "market for goods . . . for sale" covered sales "through a fixed price," announced to the media that MercExchange understood, and embraced, the Court's *Markman* ruling.

Thereafter, the parties filed cross-motions regarding the '265 patent, and on December 33, 3003, MercExchange

again unequivocally represented to the Court that the '265 patent "market for goods . . . for sale" covered only *fixed-price sales*, and that eBay had *not* infringed the '265 patent until it adopted the "Buy-It-Now" fixed-price feature:

> *At the time of the eBay/MercExchange meeting in June of 2000, eBay's system was significantly different.* In fact, a mere eight months after eBay learned about the MercExchange technology [sic], the system had evolved considerably. *Quite simply, in June of 2000, eBay did not infringe the '265 Patent. Prior to the meeting, eBay's system did not operate as an "electronic market" as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*
>
> Subsequent to this June 3000 meeting, eBay began to roll out new system features directly copying the system of the '265 Patent claims. For instance, in July of 2000, eBay announced its acquisition of Half.com for $365 million, an electronic market which permits *sellers to list items for sale at fixed prices*. In November 2000, *eBay introduced a "Buy It Now" fixed price format for listing items for sale [at fixed prices] via the eBay web site. . . .* And, in June of 2001, eBay introduced the eBay Stores feature to allow individual consignment stores to set up *electronic markets for selling items at fixed prices* on the eBay system.

(Mere. '265 Mot. for S.J. 1-2 (Dec. 23, 2002) (emphasis added)).

In late January 2003, MercExchange again addressed Mr. Woolston's statements to the Wall Street Journal, in which Mr. Woolston had *conceded* that eBay did not infringe the '265 patent before it had the fixed-price "Buy-It-Now" feature. MercExchange *again* admitted that Mr. Woolston's statement was *correct* at the time, and *again* admitted that

eBay did not infringe the '265 patent before it had the fixed-price "Buy-It-Now" feature:

> *MercExchange's statement that eBay did not infringe referred to the '265 patent At the time the statement was made, it was correct.* However, eBay later added a [*fixed-price*] "Buy It Now" feature, which clearly infringes the '265 patent.
>
> Further, eBay implemented a "trusted network" of "eBay Stores," all of which operate at a fixed price. Of course, all of these actions which constitute infringement of the '265 Patent occurred after . . . June of 2000 . . . . eBay knows this to be the case, but it simply does not inform the Court of this fact, instead offering only the *half-truth that MercExchange has stated that eBay did not infringe the '265 patent* (before it added the "Buy It Now" and "eBay Stores" features).

(Merc. Opp. to eBay's Mot. to Enforce Judge Friedman's Orders at 11-12 (Jan. 27, 2003) (emphasis added)).

Thus, before, during, and after *Markman*, MercExchange *repeatedly* acknowledged and represented to eBay, the media, and the Court that the '265 "market for goods . . . for sale" covered only *fixed-price sales*. MercExchange's experts followed the fixed-price construction as well, and argued that only eBay's "Buy-It-Now" feature infringed. Thus, MercExchange's proposed damages experts, Drs. Troxel/Evans, prepared damages reports that opined that eBay infringed the '265 patent only when it was operating in a *fixed-price sales mode*, using the "Buy-It-Now" feature. Drs. Troxel/Evans proclaimed that MercExchange was entitled to a total of $31 million in '265 patent damages (a grossly inflated figure), based on sales through the fixed-price "BuyIt-Now" feature. (Zahn Decl. Ex. 16 (Troxel Report at 9) (Sept. 27, 2002)).

Similarly, MercExchange's "technical" experts Drs. Weaver/Palmer (non-lawyers who opined about the law, and offered

little information about the technology), alleged that eBay infringed the '265 only in the *fixed price sales* mode, using the "Buy-It-Now" feature.

> One of ordinary skill in the art would interpret *the term "a market for goods"* from that claim phrase according to its ordinary meaning, and consistent with its use *in the '265 Patent specification*, to mean a computer-based system for use by at least buyers and sellers in which *a seller may electronically present a data record of a good for sale* and a prospective buyer may electronically transmit an offer to buy that good *at a particular price and quantity*. . . .

(Palmer Decl. ¶18) (Apr. 26, 2002) (emphasis added); (Palmer Expert Report ¶37) (6/10/02)(emphasis added)).

3. On February 27, 2003, MercExchange attempted to reopen *Markman*, disavow everything that it had said about the '265 patent, and offer a new theory to increase damages by a *factor of five*.

On February 27, 2003—over *four months* after Judge Friedman issued the *Markman* ruling, and after MercExchange had repeatedly claimed that its experts had fully anticipated the *Markman* decision and did not need to supplement—MercExchange served a "post-*Markman* supplemental" "joint" report from Drs. Troxel/Evans. Drs. Troxel/Evans disavowed everything that MercExchange had represented to the Court and to eBay about the "market for goods . . . for sale" being a *fixed-sales price* element. Instead, Drs. Troxel/Evans baldly proclaimed that Judge Friedman had *sua sponte* "expanded" the claims at *Markman* beyond MercExchange's proposed construction—although in fact, the Court's construction was actually *slightly narrower* than what MercExchange had proposed.[5]

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[5] Both parties agreed that the '265 patent "market for goods . . . for sale" covered only fixed-price sales; the parties disputed the trusted

For the first time, Drs. Troxel/Evans proclaimed that the '365 actually covered *all of eBay's operations*—an entirely new infringement theory that contradicted Mr. Woolston's prior statements to the WALL STREET JOURNAL and MercExchange's repeated representations to the Court.

> [A]fter we submitted our Expert Reports and Reply Reports, the Court issued its *Markman* ruling in this case, in which it construed the disputed limitations of the three MercExchange patents-in-suit. *See* October 18, 2002 Order and Opinion . . . In our prior reports in this case, we used a narrower interpretation of the '265 Patent to determine the damages amount due. . . . In these previous reports, based on this narrower construction [that the '365 patent covered only fixed-price sales, as Mr. Woolston himself told the Wall Street Journal], we had determined that the reasonable royalty for eBay's infringement of the '265 Patent should be calculated based on the application of a reasonable royalty rate to a base consisting of the estimated GMS of goods sold *using eBay's Buy-It-Now and/or other fixed-price sales format feature*. . . . [I]n light of the Court's expanded Markman Ruling, that royalty base must now include sales made through eBay's auction-style format as well.

(Zahn Decl. Ex. 17 (Troxel/Evans Joint Expert Report ¶10) (Feb. 28, 2003) (emphasis added)).

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intermediary issue. MercExchange argued in its *Markman* brief that "a market for goods" is "a place where items or goods may be bought or sold (e.g., here through a wide area communication network such as the Internet)." *See* Plaintiff MercExchange, L.L.C.'s Opening Brief in Support of Claim Construction Arguments for *Markman* Hearing, at Appendix C (July 18, 3002). The Court's October 18, 2002 *Markman* ruling narrowed MercExchange's proposed construction only slightly, changing the "place" to "trusted intermediary"—"The court finds that the market for goods is a trusted network where items or goods may be bought or sold." *Markman* Ruling at 36.

Thus, Drs. Troxel/Evans proclaimed that the "Total [Past] Damages Due and Owing to MercExchange" for "Only the '365 Patent" through March 3003 were not $31 million, as they had previously proclaimed, but were allegedly *more than five times that amount*—over *$168 million.*[6]

4. MercExchange's attempt to disavow its prior conduct and try an entirely new '265 claim construction and infringement theory violates Judge Friedman's orders.

MercExchange's excuse for changing its '265 infringement and damages—blaming the Court for *sua sponte* "expanding" the '265 claims beyond the fixed-price scope that both parties embraced—is utterly dishonest. (*See* footnote 5, *supra.*) The parties *agreed* at *Markman* that the '265 patent "market for goods . .. for sale" covered only *fixed-price sales*—they disputed whether the '265 "market for goods . . . for sale" should be *further limited* to the trusted intermediary, which is the only thing that Woolston's patent discloses. Thus, in considering the element for the '265 patent, the Court focused on the dispute between the parties, whether the '265 patent also required the trusted intermediary. *See* Markman Order (Oct. 18, 2002) at 35 ("The main dispute between the parties involves the trusted network argument which the court has addressed in the other two patents at issue in this case.").

The Court adopted MercExchange's '265 construction (which MercExchange repeatedly acknowledged covered only fixed-price sales) with one *narrowing* exception. MercExchange knew that Judge Friedman did *not* "expand" the '265 claims, much less do so *sua sponte.* In fact, *two months*

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[6] MercExchange did not disavow its statements to the Court at *Markman* and concoct its new '265 theory until the Court denied MercExchange's repeated attempts to reconsider the '051 summary judgment decision, which eliminated the majority of MercExchange's alleged damages.

after the Court issued the Markman decision, and after Mr. Robertson spoke to the media about it, MercExchange told the Court that "*Prior to [June 20001, eBay's system did not operate as an 'electronic market' as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*" (Merc. '265 Mot. for S.J. I-3 (Dec. 33, 3003) (emphasis added)). Now, in flat contradiction of its representations to the Court, MercExchange plans to tell the jury that Judge Friedman sua sponte "expanded" the '265 patent beyond the "market for goods . . . for sale," so that MercExchange may likewise "expand" its damages case *by a factor of five*, to $168 million. As set forth below, MercExchange's attempt to ignore the Court's February 14, 3003 order, reopen *Markman*, and disavow MercExchange's own repeated statements to the Court, requires sanctions.

III. ARGUMENT.

A. MercExchange and Dr. Weaver's attempt (AGAIN) to reargue the '051 patent and the section 112 ruling is inappropriate and requires sanctions.

The Court's February 14, 2003 order could not have been more clear. The '051 record is complete, and the MercExchange's next step in the litigation is appeal, following the final judgment on all three patents. *The '051 summary judgment record is closed.* MercExchange's attempt to serve the Weaver declaration again, buried in a February 36, 3003 "supplemental" expert report, is an inappropriate effort to end-run the Court's February 14, 2003 order, distort the record for appeal, and consume needless time and expense during the remaining expert discovery.

In addition, MercExchange cannot serve new inequitable conduct and damages reports on the '051 patent—which eBay would otherwise need to rebut. Consequently, the Court should strike Dr. Weaver's and Mr. Adelman's belated February 26, 3003 reports, and award eBay its costs and fees

in opposing MercExchange's continued efforts to relitigate the Court's '051 patent decisions.[7]

B. MereExchange cannot disavow its own repeated statements to Judge Friedman, reopen *Markman*, and present an entirely new '265 infringement and damages theory.

1. MercExchange is judicially estopped by its *Markman* and summary judgment arguments.

MercExchange told the Court—and eBay and the Wall Street Journal—that the '265 patent covers only a "market for goods . . . for sale"—*i.e., fixed-price sales*. In fact, during the '265 patent cross-motions for summary judgment, MercExchange said: "*Prior to the meeting, eBay's system did not operate as an 'electronic market' as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*" (Merc. '265 Mot. for S.J. 1-3 (Dec. 23, 3002) (emphasis added)).

MercExchange prevailed, in part, on the cross-motions for summary judgment—*because the Court denied eBay's motion for summary judgment*. In addition, MercExchange prevailed, in part, at *Markman*, when it argued that the '265 patent covers only *fixed-price sales*. MercExchange stated, in no uncertain terms:

> eBay's reliance on a 1999 Wall Street Journal article is unavailing. . . . And with respect to the '265 Patent, in 1999, eBay operated solely in the "auction" mode. *It was not until November of 2000, when eBay adopted a "market" mode with its "Bur It Now" feature, that they*

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[7] Dr. Weaver's February 26, 2003 expert report also contains a discussion of the '265 patent, which comprises an attorney argument and an attack on Dr. Wellman. Dr. Weaver repeatedly proclaims that his report contains nothing new, so the report serves no legitimate purpose, and the Court should strike it in its entirety.

> *fell within the claims of the '265 Patent.* Accordingly, the statement as incorrectly quoted was believed true at the time it was made.

(Merc. Reply Markman Br. at 30 (July 23, 2002) (emphasis added)). MercExchange has repeatedly told the Court that the '265 patent covers *only fixed price sales* (*and eBay agreed with it to that extent*). MercExchange cannot disavow its arguments now, after it defeated eBay's '265 motions for summary judgment and prevailed, in part, at *Markman*.

As the Supreme Court recently observed, the doctrine of judicial estoppel "prevents a party from prevailing in one phase of a case on an argument and then relying on a contradictory argument to prevail in another phase." *New Hampshire v. Maine*, 532 U.S. 742, 749 (2001). The doctrine is necessary "to protect the integrity of the judicial process," and prevents a party from playing fast and loose with the Courts. *Id.* at 743. *See also In re Cassidy*, 893 F.2d 637, 641 (7th Cir. 1990) ("Judicial estoppel is a doctrine intended to prevent the perversion of the judicial process."); *Allen v. Zurich Ins. Co.*, 667 F.3d 1163, 1166 (4th Cir. 1982) (judicial estoppel "protect[s the essential integrity of the judicial process."); *Scarano v. Cent. R.R. Co.*, 303 F.3d 510, 513 (3rd Cir. 1953) (judicial estoppel prevents parties from "playing 'fast and loose with the courts'").

Courts routinely hold that judicial estoppel prevents a patentee, like MercExchange, from trying to argue a new claim construction for a term after the parties *agreed* on the point at *Markman*. *See Stairmaster Sports/Medical Prods., Inc. v. Groupe Procycle, Inc.*, 25 F. Supp. 2d 270, 379-280 (D. Del. 1998), *aff'd* 333 F.3d 909 (Fed. Cir. 3000); *Superguide Corp. v. Direct TV Enters.*, 211 F. Supp. 2d 725 (W.D.N.C. 2002). For example, the *Stairmaster* patentee, like MercExchange, had *conceded an issue at the Markman hearing*, and thereafter, attempted to adopt a diametrically

opposed position based on the same claim language. The Court held:

> StairMaster's arguments are too late. StairMaster is judicially estopped from changing its position. . . . *The claim construction phase of this litigation has ended with StairMaster conceding and accepting Procycle's definition of this claim angle, including how it is measured.* It now wants to adopt a diametrically opposed position on the same claim language. StairMaster will not be permitted to play fast and loose with the Court. *Given its concession during the Markman hearing, StairMaster's assertion of a new position must be regarded as being made in bad faith.*

Stairmaster, 25 F. Supp. 2d at 279-280 (emphasis added). Here, as in *Stairmaster*, the claim construction phase of this litigation is *over*, with MercExchange and eBay *both* agreeing at *Markman* that the '265 "market for goods . . . for sale" covers only *fixed-price sales*. Given MercExchange's concessions before, during, and even *after* the *Markman* hearing—and Mr. Robertson's statements to the media about it—MercExchange's attempt to disavow its own statements at *Markman*, and its "assertion of a new position *must be regarded as being made in bad faith*." *Id.* at 380 (emphasis added).

Similarly, *Superguide* involved a case where a patentee, after *Markman*, attempted to disavow a previously-agreed construction. As in *Stairmaster*, the *Superguide* court held that judicial estoppel applied:

> At the claim construction stage of this litigation, Gemstar did not argue that "a desired start time" and "a desired end time" constituted a block or range of time. *See, e.g.*, Gemstar's *Markman* Brief, filed July 18, 2001, at 42. . . . Indeed, the EchoStar Defendants joined in that construction. . . . Gemstar's position is precluded by the

> doctrine of judicial estoppel which "is designed to prevent litigants from playing fast and loose with the courts."

Superguide, 211 F. Supp. 2d at 764-765. Consequently, the law is clear. *Markman* is long over, and MercExchange has repeatedly argued that the '265 "market for goods . . . for sale" covers only *fixed-price sales*—a point that was *undisputed at Markman*. MercExchange cannot disavow its own arguments now.

2. MercExchange had no excuse for waiting until February 27—over *four months after the Markman decision*—to disavow Markman and unveil an entirely new '265 infringement and damages theory.

MercExchange's new '265 infringement and damages theory is a thinly-veiled effort to sandbag the defendants on the eve of trial—and frivolously accuse the Court of adopting *sua sponte* a claim construction contrary to everything that *both* sides agreed. MercExchange has had the *Markman* ruling since *October*, and even after that time, MercExchange refused to update its expert reports, and repeatedly argued and represented to the Court that the '265 patent "market for goods . . . for sale" covers only *fixed-price sales*.

MercExchange is *again* attempting to reopen, reconsider, and reargue *Markman*—and disavow MercExchange's own statements to the Court in its summary judgment brief.

> [I]n numerous motions and letters submitted to the court since the *Markman* Opinion was entered, the plaintiff has yet to raise a challenge to the claims constructions therein. Moreover, in the plaintiff's own post-*Markman* Motion for Partial Summary Judgment, it argues that eBay is a trusted network and acts as a trusted intermediary. How the plaintiff can argue this out of one side of its mouth while simultaneously arguing that it

> lacks any substantial basis upon which to proceed is completely disingenuous.

(February 14, 2003 Order at 7-8). Just as MercExchange's '265 summary judgment motion proclaimed that MercExchange knew what a "trusted intermediary" was—MercExchange's '265 motion for summary judgment proclaimed that the '265 "market for goods . . . for sale" was limited to the fixed-price sales format. "*Prior to the meeting, eBay's system did not operate as an 'electronic market' as claimed in the '265 Patent because eBay's system did not allow users to list an item for sale at a fixed price.*" (Merc. '265 Mot. for S.J. 1-2 (Dec. 23, 3002) (emphasis added)).

MercExchange cannot possibly reconcile its conduct or escape the consequences of its own actions. Thus, eBay and Half.com respectfully request the Court strike the February 27, 2003 Troxel/Evans report, and award eBay and Half.com their costs and fees incurred in preparing and filing this motion.

IV. CONCLUSION.

MercExchange refuses to accept the *Markman* decision and the Court's '051 section 112 ruling. The Court's February 14, 2003 order was clear, yet MercExchange *again* has attempted to violate it. Consequently, eBay and Half.com respectfully request the Court strike MercExchange's February 26, 2003 "supplemental" reports, and award eBay its fees and costs. Similarly, eBay and Half.com also request the Court strike the belated, February 27, 2003 "joint" report of Drs. Troxel/Evans, which attempts to reopen, reconsider, and reargue *Markman* and disavow what both sides have agreed and represented to the Court.

Dated: March 3, 3003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC., a Delaware Corporation, and HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

MEMORANDUM IN SUPPORT OF EBAY AND HALF.COM'S MOTION IN LIMINE No. 1:

MOTION TO EXCLUDE EVIDENCE OF INSOLVENT RETURNBUY'S "CONFESSION" AND LICENSE/SETTLEMENT AGREEMENT WITH MERCEXCHANGE.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT – FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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I. INTRODUCTION.

eBay respectfully requests the Court exclude any reference to, or reliance on, the so-called ReturnBuy "confession" and settlement agreement/license agreement with MercExchange. During secret negotiations, ReturnBuy's CEO explained to MercExchange that his company was deep in insolvency and attempting to sell all of its assets. As ReturnBuy spiraled toward liquidation, MercExchange offered to dismiss the case if ReturnBuy would "confess" to infringement and point the finger at eBay. The resulting "confession" and accusation against eBay, which Mr. Woolston touted to the national media and the Court, is extraordinarily prejudicial, completely unreliable, and plainly inadmissible.

- First, after the parties briefed this issue on eBay 's January 21. 2003 motion to strike, the Court entered an order on February 26, 2003, dismissing ReturnBuy and stating: "Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Halfcom, and MercExchange in this case."
- Second, the ReturnBuy "confession" came long *after* the close of discovery. eBay attempted to take discovery into it but MercExchange *refused.* Allowing evidence of the ReturnBuy "confession" would violate the Court's scheduling orders, and deprive eBay of its fundamental due process rights.
- Third, the ReturnBuy "confession"/license/settlement is inadmissible hearsay under FED. R. EVID. 801, not covered by any exception.
- Fourth, the ReturnBuy "confession"/license/settlement—extracted from an insolvent company in the midst of selling its assets—has no probative effect whatsoever, yet is extraordinarily prejudicial. ReturnBuy's assets have now been purchased by

another company, Jail Circuit, which is operating the former ReturnBuy cite, but *declined* to accept the exorbitant ReturnBuy license. Thus, the "valuable license" has been abandoned, and the meaningless "confession"/license/settlement is inadmissible under FED. R. EVID. 403.

- Fifth, the ReturnBuy "confession"/license/settlement—an inherently unreliable "confession" about pending *legal issues*—is an inadmissible opinion FED. R. EVID. 701.

Thus. eBay and Half.com respectfully request the Court exclude any evidence of the ReturnBuy "confession"/license/settlement, and any expert opinions purporting to rely on it.

II. BACKGROUND.

A. As ReturnBuy descended toward insolvency and asset liquidation, MercExchange contacted ReturnBuy, circumventing litigation counsel, and extracted a sham "confession" in exchange for a dismissal of the case.

eBay and Half.com filed a post-*Markman* motion for summary judgment regarding the '265 patent on November 15, 2002. With eBay's '265 post-*Markman* motion for summary judgment pending, Mr. Woolston and MercExchange adopted a new strategy. One of the defendants in the case, ReturnBuy, was deep in insolvency. (McFarland Decl. Ex. 1 (Benn Decl. ¶2)). By mid-December 2002, ReturnBuy's condition had become hopeless, and ReturnBuy's CEO, Walt Shill, had unsuccessfully spoken with dozens of entities in an effort to find a purchaser for the company or its assets. (*Id.* ¶¶2-3). With ReturnBuy insolvent, Mr. Shill concluded that he had a duty to liquidate the company for the benefit of its creditors. (*Id.* ¶3). After dozens of failures, Mr. Shill finally found a potential buyer. (*Id.* ¶¶2-3). However, Mr. Shill had to resolve the Merc-Exchange litigation to proceed with the possible asset sale. (*Id.* ¶3).

Mr. Shill told MercExchange that ReturnBuy was in dire straights and planning to sell its assets. (*Id.* ¶4). MercExchange offered to drop the case against ReturnBuy in exchange for a "confession" and an accusation against eBay. (*Id.* ¶4); (McFarland Decl. Ex. 2). Return-Buy agreed. Because it had reached a point of insolvency and was attempting to sell its assets. (McFarland Decl. Ex. I (Benn Decl. ¶4)).

Thus, MercExchange dropped any claim against Return-Buy for past "infringement" of the '265 patent, and Mr. Shill "confessed" that ReturnBuy had infringed the '265 patent. (McFarland Decl. Ex. 2 and 3). MercExchange even insisted that non-lawyer Shill "con-fess" that the '051 patent was "valid"—*contrary to the orders of the Court*—and that all of the Woolston patents were "valid" and "enforceable." (McFarland Decl. Ex. 3). MercExchange also extracted Mr. Shill's "confession" that eBay had "induced" and "contributed" to ReturnBuy's supposed "infringement" of the '265 patent claims. (McFarland Decl. Ex. 2). Finally. MercExchange insisted that Mr. Shill agree to an exorbitant "license" of the '265 patent for the future—but *ReturnBuy had no future*. As would become clear later, MercExchange planned to argue to the Court and the media that the exorbitant ReturnBuy "license" was evidence of the rate that eBay should pay.

In the meantime, Woolston kept eBay and its counsel busy with Woolston's holiday season *pro se* assault against eBay's expert, Commissioner Gerald Mossinghoff. eBay's attorneys, from McGuire Woods and Cooley Godward, worked to obtain expedited relief so that Commissioner Mossinghoff could defend himself both in this Court and in the Virginia State Bar. Neither eBay, nor any of the McGuire Woods or Cooley Godward attorneys, were involved in the ReturnBuy/MercExchange "confession" negotiations.

B. MercExchange moved for summary judgment of "willful infringement" of the '265 patent, touting the ReturnBuy "confession" to the media and the Court.

Three days after the Court ended Mr. Woolston's pursuit of Commissioner Mossinghoff, on December 23, 2002, MercExchange made an announcement. ReturnBuy had "confessed," supposedly proving that eBay was a "knockoff" of the Woolston patents: "MercExchange claims the settlement validates its claim that eBay's auction system is a knockoff of the process it patented in 1995." (McFarland Decl. Ex. 4 (Troy Wolverton, *Will eBay End up Paying for its Own Auctions?*) (Dec. 23, 2002)). Although ReturnBuy was insolvent and in the midst of an asset sale, Mr. Woolston touted the deal as an important "milestone" that established "fair and reasonable" terms:

> Woolston said he too was pleased with the settlement, calling it a "milestone" in the case. "It's an important development for us to have a large member of the eBay community license us on fair and reasonable terms," Woolston said. "It can only help the cause for us to vindicate our rights."

(*Id.*) That same day, MercExchange filed its motion for summary judgment of "willful infringement" of the '265 patent, arguing that the ReturnBuy "confession"/settlement proved that eBay had "will-fully infringed" Woolston's '265 patent. MercExchange emphasized that ReturnBuy "admitted" that the '051 Patent (which this Court has held invalid, and which was never even asserted against ReturnBuy), was "valid and enforceable":

> Moreover, Co-Defendant ReturnBuy, Inc. ("ReturnBuy") has *now conceded its direct infringement of the '265 patent*. Just last week, *ReturnBuy confessed* that it infringed seven claims of the '265 Patent, including five independent claims. *See* Declaration of Brian M. Bu-

> roker ("Bunker Dec.") Ex. 00. Further, *ReturnBuy also admitted that the '265 Patent, as well as the '176 and '051 Patents are valid and enforceable. Id.*, Ex. PP.

Merc. S.J. Br. at 2 (12/23/02) (emphasis added). In an effort to paint eBay as a criminal whose cohort had turned state's evidence, MercExchange proclaimed that ReturnBuy had "Confessed" that eBay had "induced and contributed" to ReturnBuy's supposed infringement:

> Most importantly, however, ReturnBuy affirmatively acknowledged that *eBay induced and contributed to ReturnBuy's direct infringement of the claims of the 265 Patent.* [citing Buroker declaration] Thus, it is hard to imagine a clearer case of willful infringement.

Merc. S.J. Br. at 3 (12/23/02). MercExchange failed to inform the Court that it knew that ReturnBuy was deep in insolvency, and the "confession" meant nothing.

eBay's counsel, McGuire Woods and Cooley Godward, had also been counsel of record for ReturnBuy but had no involvement whatsoever in the secret MercExchange/ReturnBuy negotiations. Recalling that MercExchange had directly contacted eBay's expert, Commissioner Mossinghoff, and ordered him to withdraw, eBay asked MercExchange whether any MercExchange attorneys had circumvented ReturnBuy counsel and communicated directly with the ReturnBuy. (McFarland Decl. Ex. 5 (Letter from Jeffrey Randall to Gregory Stillman) (Jan. 7. 2003)). MercExchange refused to respond.

Thereafter, eBay requested discovery, pursuant to the Court's Order authorizing it, to oppose MercExchange's summary judgment motion, but MercExchange refused, proclaiming that the "confession" entitled it to summary judgment. MercExchange did not admit that ReturnBuy was insolvent—even though it was *bankrupt*—and argued that *if*

ReturnBuy was insolvent, the license was a "valuable asset" that ReturnBuy could sell:

> Even if true, that very purported 'insolvency' provides compelling reason for resolving this lawsuit with MercExchange. For example, the license agreement provides that it could be assigned upon the sale of substantially all of the assets of ReturnBuy. Accordingly, the license agreement itself could be a valuable asset for ReturnBuy to convey. . . . Furthermore, if the license agreement is conveyed as part of an asset sale, MercExchange stands to receive significant revenues from royalties from the purchaser, perhaps a company better suited to exploit MercExchange's intellectual property rights.

(Merc. Opp. to eBay's Motion to Strike at 13 (Feb. 3, 2003)). Thus, MercExchange urged the Court to grant summary judgment against eBay, based on the sham confession and "license."

C. MercExchange asked the Court to sign a judgment against ReturnBuy that MercExchange could use to attack eBay.

MercExchange also asked the Court, *in a letter and without filing a motion and giving eBay an opportunity to be heard*, to enter a judgment endorsing the ReturnBuy "confession" that Merc-Exchange could use against eBay. On February 26, 2003, the Court entered the order dismissing ReturnBuy, but stated: "*Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com, and MercExchange in this case.*"

In the meantime, ReturnBuy's assets, including the "valuable license" from MercExchange, went up for sale in bankruptcy. Jabil Circuit, a company able to recognize a sham "license" when it sees one, purchased "*substantially all*" of ReturnBuy's assets and license agreements, *with one glaring*

exception—Jabil Circuit did not accept the MercExchange license agreement. The Bankruptcy Court order stated:

> *Jabil has not purchased or taken by assignment any of the Debtor's [ReturnBuy's] agreements or licenses with Merc-Exchange, L.L.C. and is therefore not bound by any admissions or agreements made by Debtor in such agreements or licenses.*

(McFarland Decl. Ex. 6 (*In re ReturnBuy, Inc.* Order Approving Asset Purchase Agreement with Jabil Global Services, Inc. Authorizing the Sale of Substantially All Assets, C.N. 03-10324-SSM (Mar. 4, 2003) (emphasis added)).

Undeterred, MercExchange plans to introduce the meaningless ReturnBuy "confession" at trial.

ARGUMENT.

A. The Court's February 26, 2003 order indicates that the ReturnBuy judgment has no effect on the remaining claims or defenses in the case.

The Court's February 26, 2003 order is clear: "Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com, and MercExchange in this case." Nonetheless, MercExchange again attempts to relitigate an issue, and asks the Court to allow it to introduce the plainly inadmissible, yet extraordinarily prejudicial, license and settlement agreements. As set forth below, the Court should reaffirm its order, and exclude the inadmissible evidence of the ReturnBuy "confession"/license/settlement.

B. The ReturnBuy "confession" evidence should be excluded because it would violate the Court's orders, and deprive eBay of its due process rights:

MercExchange has refused any discovery into the alleged Return-Buy "confession," depriving eBay of its right to cross-examination, an essential aspect of due process:

> For two centuries past, the policy of the Anglo-American system of evidence has been to regard the necessity of testing by cross-examination as a vital feature of the law. The belief that no safeguard for testing the value of human statements is comparable to that furnished by cross-examination, and the conviction that no statement (unless by general exception) should be used as testimony until it has been probed and sublimated by that test, has found increasing strength in lengthening experience. . . . It is beyond doubt the greatest legal engine for the discovery of truth.

United States v. Medico, 557 F.2d 309. 321 (2d Cir. 1977) (citation omitted). *See also California v. Green*, 399 U.S. 149, I58 (I970) (agreeing that cross-examination is "the greatest legal engine ever invented for the discovery of truth"): *Taylor v. Illinois*, 484 U.S. 400, 410-11 (1988) ("The adversary process could not function effectively without adherence to rules of procedure that govern the orderly presentation of facts and arguments to provide each party with a fair opportunity to assemble and submit evidence to contradict or explain the opponent's case.").[1]

After MercExchange filed its summary judgment motion, based in part on the ReturnBuy "confession," eBay repeatedly requested the discovery pursuant to the Court's April 8 and April 9 orders. (McFarland Decl. Ex. 7 (Letter from Jeffrey Randall to Gregory Stillman) (Dec. 26, 2002) and Ex. 8

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[1] As the Fourth Circuit has observed, evidence "supplied through the lips of witnesses is subject not only to the possible infirmities of falsification or bias: it is also subject to the inaccuracies which inevitably flow from the fallibility of human powers of observation, memory, and description." *United States v. Caudle*, 606 F.2d 451, 457 (4th Cir. 1979). In fact, the "annals of the legal profession are filled with instances in which testimony, plausible when supplied on examination in chief, has by cross-examination been shown to be, for one or more of the reasons mentioned, faulty or worthless." *Id.* (citation omitted).

(Letter from Jeffrey Randall to Gregory Stillman) (Dec. 30, 2002)).

> MercExchange has not produced all of the necessary documents and information required under the Court's order. First, although MercExchange is attempting to rely on the Return-Buy/MercExchange pact as substantive evidence in support of its motion. MercExchange has failed to produce any drafts or other documents exchanged between MercExchange and ReturnBuy. As our firm was not involved in the negotiations between MercExchange and ReturnBuy, we do not have these documents and have never seen them. MercExchange has no basis to withhold these materials, which are not privileged. Please produce these documents immediately.

(McFarland Decl. Ex. 9 (Letter from Jeffrey Randall to Gregory Stillman (Jan. 8, 2003)).

MercExchange refused. Thus, the Court should strike the declarations and evidence. *See* FED. R. CIV. P. 37(a)(4)(B), 37(b)(2). *See also Hathcock v. Navistar Int'l Transp. Corp.*, 53 F.3d 36, 40 (4th Cir. 1995); *Rabb v. Amatex Corp.*, 769 F.2d 996, 999-1000 (4th Cir. 1985); *Hatton v. Spencer (In re Hatton)*, 204 B.R. 477, 485-86 (ED. Va. 1997) (Rule 37(b)(2) provides that a court may sanction a non-complying party by refusing to allow introduction of designated matters in evidence).

C. Evidence of the ReturnBuy "confession" is classic hearsay opinion, inadmissible as a matter of law.

The ReturnBuy "confession"/settlement is inadmissible hearsay, not subject to any exception. *See* FED. R. EVID. 801, 802. *See also Evans v. Tech. Applications & Serv. Co.*, 80 F.3d 954, 962 (4th Cir. 1996) (granting motion to strike any hearsay materials improperly relied upon in a summary judgment motion); *Contracts Materials Processing, Inc. v.*

Kataleuna GmBh Catalysts, 164 F. Supp. 2d 520, 527-28 (D. Md. 2001). ReturnBuy is no longer a party to this case, and its meaningless "confession" cannot be used against the remaining parties as a matter of law. In fact, the ReturnBuy confession is exactly the sort of unreliable and inappropriate "evidence" that the hearsay rule is designed to preclude.

D. Evidence of the ReturnBuy "confession" is inadmissible lay opinion.

The ReturnBuy "confession," even if taken at face value, is nothing more than an inadmissible lay opinion regarding patent law issues, including infringement, validity, and inducement. *See* FED. R. EVID. 701(c). *See* Committee Note to 2000 Amendment to Rule 701 ("The amendment makes clear that any part of a witness' testimony that is based upon scientific, technical, or other specialized knowledge within the scope of Rule 702 is governed by the standards of Rule 702 and the corresponding disclosure requirements of the Civil and Criminal Rules."); *See, e.g., Evans*, 80 F.3d at 962 ("Because, again, we generally consider self-serving opinions without objective corroboration not significantly probative, the decision to strike and disregard as irrelevant Evan's assertions was not improper.").

E. Evidence of the ReturnBuy "confession" is inadmissible under Rule 403.

The ReturnBuy "confession"/settlement has no legitimate probative value, yet would undeniably have an improper prejudicial effect. ReturnBuy was insolvent, and the "confession" and accusation against eBay enabled ReturnBuy to move ahead with its bankruptcy without giving MercExchange anything. ReturnBuy's assets now belong to Jabil Circuit, which did not accept the ReturnBuy license or "confession," and as the Eastern District Court has held, is not bound by it.

> *Jabil has not purchased or taken by assignment any of the Debtor's [ReturnBuy's] agreements or licenses with*

MercExchange, L.L.C. and is therefore not bound by any admissions or agreements made by Debtor in such agreements or licenses.

(McFarland Decl. Ex.6 (In re ReturnBuy, Inc. Order Approving Asset Purchase Agreement with Jabil Global Services, Inc. Authorizing the Sale of Substantially All Assets, C.N. 03-10324-SSM (Mar. 4, 2003) (emphasis added)).

Nonetheless, MercExchange has incorrectly suggested that patent license agreements are immune from the rules of evidence, and are routinely admitted. In fact, the Courts view such evidence with suspicion. *See, e.g., EWP Corp. v. Reliance Universal, Inc.*, 755 F.2d 898, 907-08 (Fed. Cir. 1985) ("Such [licensing] programs are not infallible guides to patentability. They sometimes succeed be-cause they are mutually beneficial to the licensed group or because of business judgments that it is cheaper to take licenses than to defend infringement suits, or for other reasons unrelated to the unobviousness of the licensed subject matter."); *Lyle/ Carlstrom Assoc., Inc. v. Manhattan Store Interiors, Inc.*, 635 F. Supp. 1371, 1384 (E.D.N.Y. 1986), *affd*, 824 F.2d 977 (Fed. Cir. 1987) ("there are no clear inferences about the prospects for success at the trial that can be drawn from the settlement of an infringement action. Settlement may reflect a desire for peace, a plaintiffs superior economic resources, or a defendant's business decision to avoid lengthy and costly litigation."); *John E. Thropp's Sons, Co. v. Seiberling*, 264 U.S. 320, 329-30 (1924) (noting that patents may be "well calculated to induce acquiescence by those without sufficient knowledge of the prior art or adequate capital to resist" and where a "license was not a heavy tax . . . purchase of peace was a wise course"); *Newell Window Furnishing Inc. v. Springs Window Fashions Div. Inc.*, 53 U.S.P.Q.2d 1302, 1326 (N.D. Ill. 1999) *aff'd in part, rev'd in part*, 2001 WL 744460 (Fed. Cir. 2001) ("license and consent judgment are of limited value as objective indicia of non-obviousness. The

evidentiary value of such licenses and con-sent judgments lies in the assumption that the concessions made therein by a competitor are against the competitor's best interests . . . it is clear that [the licensee] entered into settlement to avoid costs of future litigation."); In re GPAC Inc., 57 F.3d 1573, 1580 (Fed. Cir. 1995) ("Licenses taken under the patent in suit may constitute evidence of nonobviousness; however, only little weight can be attributed to such evidence if the patentee does not demonstrate 'a nexus between the merits of the invention and the licenses of record.'").

The overreaching ReturnBuy "confession," signed by a lay-person on the eve of filing bankruptcy, has no probative value and is highly prejudicial. It will almost certainly confuse the jury, which may gather the false impression that eBay's counsel—which was also ReturnBuy's counsel—had some-thing to do with it, when in fact, MercExchange negotiated the "confession" directly with Return-Buy, behind litigation counsel's back.

Thus, the Court should exclude the evidence under FED. R. EVID. 403. If the ReturnBuy "confession" proves anything, it demonstrates only that MercExchange was willing to circum-vent ReturnBuy's litigation counsel, and drop its '265 patent claims against Return-Buy for *nothing*.

IV. CONCLUSION.

The Court should exclude all reference to, and evidence of, the ReturnBuy "confession"/license settlement at trial.

Dated: March 24, 2003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., HALF.COM, INC., and
RETURNBUY, INC., Pennsylvania Corporation,
Defendants.

MEMORANDUM IN SUPPORT OF
EBAY AND HALF.COM'S MOTION IN LI MINE No. 2:

MOTION TO EXCLUDE EVIDENCE OF
MERCEXCHANGE'S SELF-DEALING LICENSE
"AGREEMENTS" WITH ADEN ENTERPRISES,
LEFTBID.COM, AND NAVLET.COM AS PROOF OF
VALIDITY AND "DAMAGES."

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.RESTRICTED DOCUMENT- FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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I. INTRODUCTION.

eBay respectfully requests the Court exclude any reliance on MercExchange's self-dealing license "agreements" with Aden Enterprises and its subsidiaries, Leftbid.com and Navlet.com, as proof of validity or "damages." The agreements are sham products of self-dealing between jointly-owned companies, signed with Mr. Woolston as an executive officer and co-owner of MercExchange and each of the licensees. The licenses are in no way probative of the value or commercial success of the patents-in-suit, and should be excluded as proof of validity or damages under Federal Rule of Evidence 403 for at least the following three reasons:

- First, the principals involved with the purported licenses have openly acknowledged that they were not arm's length transactions. Indeed, each "agreement" was signed while: (1) Mr. Woolston was simultaneously serving as an executive for MercExchange and each licensee; (2) MercExchange held an ownership interest in each licensee; and (3) Aden held an ownership interest in MercExchange.
- Second, Aden's CEO testified that the parties to the agreements did not necessarily consider themselves bound by their terms and, in fact, Aden and MercExchange at times either entered agreements with no intent to act upon them or would "do[] things contractually purportedly . . . where we didn't necessarily either document them properly, we didn't execute properly, or didn't understand necessarily the consequence." If the parties to the agreement did not understand which terms were merely "purported" and which were "documented properly," the jury should not be burdened with making that determination for them.

- Third, the purported licenses were signed after Mr. Woolston—a patent attorney with full knowledge of how infringement damages are calculated—resolved to sue eBay. In fact, one of the "agreements" was entered only after MercExchange and Aden contracted to share in the proceeds from the present lawsuit. Not surprisingly, MercExchange now relies on these purported agreements and their artificially inflated terms as the centerpiece of its damages case.

Despite these undisputed facts, MercExchange plans to offer the agreements as "objective evidence" that the patents-in-suit are valid, and relies upon them as a basis for calculating the damages it seeks. The agreements carry no probative value on either point, and instead may confuse the jury and have an unduly prejudicial effect. Like the sham ReturnBuy "confession" and license (*See* Defendants' Motion in Limine No. 1), the "Aden family" agreements are manufactured evidence, with litigation in mind. Thus, the Court should exclude any reliance on the Aden, Navlet, and Leftbid licenses as proof of validity or damages.

II. BACKGROUND.

A. Mr. Woolston was a high-ranking executive and co-owner of Aden, Navlet, Leftbid, and MercExchange.

In 1995, Pierre Omidyar, an engineer, and Thomas Woolston, a patent lawyer, had two fundamentally different views of how to run an Internet business. Over several months, Mr. Woolston spent his spare time writing a patent application describing a cumbersome trusted intermediary system. In less than a week, Mr. Omidyar wrote the software for a person-to-person auction system that became eBay. In November 1995, as Mr. Omidyar's system was growing in popularity, Woolston rewrote and refiled his application with the Patent Office.

While Mr. Omidyar's person-to-person auction site was becoming one of the world's most respected e-commerce businesses, Woolston attempted to partner with MCI WorldCom.[1] (McFarland Decl. Ex. 1 (e-mail from T. Woolston to R. Smith at MCI (Jan. 15, 1996))).

WorldCom rejected Woolston's proposal, as did a series of venture capitalists, travel agencies, web developers, antique dealers, art retailers, and George Mason University. *(See, e.g.,* (McFarland Decl. Exs. 2-4 (Letters from T. Woolston to Washington Antique Center (June 1, 1998); to Wavelynx, L.L.C. (June 20, 1997); and George Mason University (Nov. 14, 1997)).

In early 1999, Mr. Woolston and his company, MercExchange, finally found a partner in Michael Luther and his company. Aden Enterprises, an Omaha, Nebraska holding company. Mr. Woolston and Mr. Luther entered into an agreement through which Aden and MercExchange obtained twenty-five and ten percent ownership interests in one another. (McFarland Decl. Ex. 5 (Letter from M. Luther to T. Woolston (Jan. 19, 1999))).

Aden and MercExchange planned to sue eBay, ultimately entering a "Patent Enforcement Agreement" to jointly fund, and share in any recovery from, any patent infringement action against eBay. (McFarland Decl. Ex. 6 (Patent Enforcement Agreement by and between MercExchange, L.L.C. and Aden Enterprises, Inc.)).

Thereafter, Aden formed two subsidiary dot-com companies, Leftbid and Navlet, creating the "Aden Family" of companies, including: (1) Aden Enterprises, (2) Leftbid.com, (3) Navlet.com, and (4) MereExchange. Few of the individuals involved understood the "nebulous" web of companies, and

---

[1] WorldCom's less successful history may be reviewed at www.worldcomstockfraud.com and www.worldcomemriloveelawsuit.com.

MercExchange co-owner and "Aden family" attorney John Phillips did not even know which company employed him.

> Q. Who were you an employee of in 2000?
>
> A. Frankly, the answer is, I'm not entirely sure. It was a very nebulous situation. That's one of the primary reasons why I'm no longer there.

(McFarland Decl. Ex. 7 (Phillips TR 178:5-9)).

One thing, however, was clear—as his growing collection of business cards showed, Mr. Woolston was a co-owner and high-ranking executive officer in *each* of the Aden family of companies.

[image omitted]

B. The Aden/Navlet/Leftbid/MercExchange licenses are self-dealing.

On October 8, 1999—with MercExchange and Aden holding ownership interests-in one another, plans to sue eBay in place, and Mr. Woolston serving as an officer for both companies—Leftbid and MercExchange signed a license to Mr. Woolston's patents, which MercExchange now submits to the Court as evidence of validity and damages. (McFarland Decl. Ex. 8 (License Agreement By and Between Leftbid.com, Inc. and MercExchange, LLC (Oct. 8, 1999))).

Later that month—with MercExchange and Aden holding ownership interests in one another, plans to sue eBay in place, and Mr. Woolston serving as an officer for both companies—Aden and MercExchange retooled their original January agreement, significantly increasing Aden's obligation under the earlier license. (McFarland Decl. Ex. 9 (License Agreement By and Between Aden Enterprises, Inc. and MercExchange, LLC (Oct. 28, 1999))). When asked why Aden gratuitously decided to pay more for a license it already had, Aden's CEO, Michael Luther, said that the relationship between Aden and MercExchange had become "more expan-

sive" and explained the business rationale behind the new, inflated terms:

> Q. So on October 28th, 1999, why did you agree to give MercExchange 43 million more shares than you had earlier in the April 20th, 1999 agreement, for the same license?
>
> A. That's a really good question.
>
> Q. Do you recall any reasons?
>
> A. We thought he was really smart.

(McFarland Decl. Ex. 10 (Luther TR 114:10-16)). MercExchange now offers the terms of this "license" as evidence of validity and damages.

Finally, on March 1, 2000—with MercExchange and Aden holding ownership interests in one another, a contract in place to sue eBay, and Mr. Woolston serving as president of both companies—Navlet and MercExchange signed contract license to Woolston's patents. (McFarland Decl. Ex. 11 (License Agreement By and Between Navlet.com, Inc. and MercExchange, LLC (Mar. 1, 2000))).

MercExchange intends to offer all of the "Aden family" licenses as "arm's length" transactions, allegedly proving that the Woolston patents are valid and valuable.

III. ARGUMENT.

A. The Self-Dealing "Aden family" Licenses Are Inadmissible Under Rule 403. Federal Rule of Evidence 403 provides that, "[a]lthough relevant, evidence may be excluded if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury." FED. R. Evid. 403. The Aden, Leftbid, and Navlet agreements" are precisely the sort of evidence Rule 403 is intended to exclude. The agreements

have no probative value, may confuse the jury, and would prejudice defendants.

B. The Aden, Leftbid, and Navlet "agreements" were drafted and executed with a suit against eBay in mind and were not the product of arm's length negotiation.

1. None of the self-serving "agreements" were arm's length transactions.

By the time the "Aden family" first licensed the Woolston patents, Mr. Woolston, a patent lawyer, had already resolved to sue eBay, and knew that "arm's length" licenses would help him do it. However, the incestuous "Aden family" license agreements are not arm's-length transactions. MercExchange and Aden had ownership interests in each other, and together, they owned Leftbid and Nay let. (McFarland Decl. Ex. 5 (Letter from M. Luther to T. Woolston (Jan. 19, 1999))). Moreover, MercExchange held an ownership stake in each of its licensees, and Mr. Woolston served as an officer of each company while "negotiating" the licenses on behalf of MercExchange.[2]

- October 8, 1999: Lefibid.com—with Woolston as a Director and Chief Technology Officer and General Counsel of its parent company—entered a license agreement with MercExchange—with Woolston as Managing Director;
- October 28, 1999: Aden—with Woolston as General Counsel and Chief Technology Officer—entered a license agreement with MercExchange—with Woolston as Managing Director;

---

[2] (*See* McFarland Decl. Ex. 12 (Woolston TR 218:11-219:6 ("when we did those kind of transactions; I jumped into MercExchange . . . *There were definitely conflicts*") (emphasis added).

- March 1, 2000: Navlet.com—with Woolston as President and CEO—entered a license agreement with MercExchange—with Woolston as Managing Director.

Unlike typical license agreements resulting from arm's length negotiation, the "Aden family" agreements contained inflated, one-sided terms divorced from commercial reality.[3] Leftbid's CEO, Mark Borghi. pointed out the obvious flaw in the MercExchange license agreements:

> Q. Did it concern you or anyone else at Leftbid that Mr. Woolston being the CTO of Leftbid and managing member of MercExchange when he negotiated a license with Leftbid on behalf of MercExchange? . . .
>
> A Yeah, I was very upset. . . . I was upset because I felt that there was no arm's length transactions between us.

(McFarland Decl. Ex. 13 (Borghi TR 102:14-103:10) (emphasis added)).

> Q Were you upset that Leftbid would be tied to employing the subject matter of the pending or issued patents? Was that one of your concerns?
>
> . . .
>
> A My objection was that even when you're dealing with your partners, Tom Woolston that *there should be an arm's length transaction between these companies and I didn't feel that we're operating in that manner*. . . . That was my concern, not that this was a bad document or a

[3] The Aden, Naviet, and Leftbid licenses—like the abortive ReturnBuy license—provided for royalty payments based on a percentage of gross sales—a method that defies basic business sense.

> good document, it was just that I didn't think it was professionally done the way this was presented to me.

(McFarland Decl. Ex. 13 (Borghi TR 113:22-114:12))

Despite these glaring deficiencies, MercExchange now offers these distorted, self-serving "agreements" as the centerpiece of its damages calculations. To prevent such "evidence" from misleading juries, the Federal Circuit has stressed the circumstances surrounding the negotiation of a license agreement .determine its probative value. *Allen Archer, Inc. v. Browning Mfg. Co.*, 898 F.2d 787, 790 (Fed. Cir. 1990) ("In the absence of arm's-length bargaining, the prices at which Browning Mfg. sold to [its subsidiary] Browning were not a 'net selling price' under Allen's industry-wide licensing agreement which, as noted, the parties and the district court agreed was the proper basis for determining a reasonable royalty."); *Newell Window Furnishing Inc. v. Springs Window Fashions Division Inc.*, 53 U.S.P.Q.2d 1302, 1326 (N.D. Ill. 1999) *aff'd in part, rev 'd in part on other grounds*, 2001 WL 744460 (Fed. Cir. 2001) ("The evidentiary value of such licenses and consent judgments lies in the assumption that the concessions made therein by a competitor are against the competitor's best interests"). Because the agreements were not negotiated at arm's length, they have *no probative value* and should be excluded.

2. Aden and MercExchange admittedly entered into contracts they neither understood nor executed.

Aden's CEO, Michael Luther, testified that Aden and MercExchange would enter into. "purported" contracts and the terms of agreements between MercExchange and its licensees may not have reflected any real obligation for-either part?[4]:

---

[4] Indeed. Mr. Luther explained that Aden admitted in a December 1999 Leftbid offering circular that [a]t the present time, Aden does not have the

Q. So from time to time, Aden Enterprises and MercExchange would enter into contracts that they wouldn't act upon?

A. Yes.

(McFarland Decl. Ex. 10 (Luther TR 139:7-10) (emphasis added))

Q. Did you ever discuss with Mr. Woolston the grant of an exclusive license to MercTravel in the on-line travel sector a month-and-a-half after the same license was granted to Aden Enterprises?

A. I think this—*this is indicative of us doing things contractually purportedly,* and then catching up on things. . . . I think it has to do with the governance and administration in Aden was marginal at best, 'so *there were a lot of things that we did where we didn't necessarily either document them properly, we didn't execute properly, or didn't understand necessarily the consequence.*

Q. So given the fluidity of that situation with Aden, one might look at a contract for a given date between Aden and a company and it might not reflect the actual circumstances of a given date?

A. Could quite possibly be . . . it wouldn't surprise me.

(McFarland Decl. Ex. 10 (Luther TR 152:19.154:3) (emphasis added)). Mr. Woolston did not remember the terms of the Aden agreements, stating that he just "put it in the drawer":

Q What was the first agreement MercExchange ever entered into with Aden Enterprises?

---

financial resources necessary to exercise its right and meet its obligations under the [October 28, 1999 MercExchange] agreement." (McFarland Decl. Ex. 10 (Luther TR 119:5-14)).

A I believe it was January 1999.

Q What were the terms of that agreement?

A Jeff, you'd have to get it out and put it in front of me. When we negotiated the *deal, we put it in the drawer and we tried to make the relationship work.* That relationship got continually renegotiated and recodified in subsequent contracts and superseding contracts.

(McFarland Decl. Ex. 12 (Woolston TR 192:20-193:7)).

Q What monetary value did you place on what you got in return from Aden Enterprises in that January '99 agreement?

A What monetary value did I place in what we got in return for the Aden agreement—it was tough to put your finger on it. It was a partner. It was a partner. To me, *I value the relationship more than any other words of the contract.*

(McFarland Decl. Ex. 12 (Woolston TR 196:9-16) (emphasis added)).

If the "Aden family" members were unable to make sense of the agreements, no jury can. *See In re GPAC Inc.*, 57 F.3d 1573, 1580 (Fed. Cir. 1995) ("only little weight can be attributed to such evidence if the patentee does not demonstrate 'a nexus between the merits of the invention and the licenses of record.'"); *Newell Window Furnishing Inc.*, 53 U.S.P.Q.2d at 1326 ("The evidentiary value of such licenses and consent judgments' lies in the assumption that the concessions made therein by a competitor are against the competitor's best interests").

IV. CONCLUSION.

The Court should preclude MercExchange and *its* experts from relying on the self-dealing Aden, Leftbid, and Navlet

license agreements as proof of validity and damages, as set forth in the attached proposed order.

Dated: March 24, 2003

Respectfully submitted,

By: _____

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IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC., a Delaware Corporation, and HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

MEMORANDUM IN SUPPORT OF
EBAY AND HALF.COM'S MOTION IN LIMINE No. 4:

MOTION TO EXCLUDE ANY EVIDENCE OF, OR RELIANCE ON, THE MERCEXCHANGE/GOTO SETTLEMENT.

FILED UNDER SEAL
THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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I. INTRODUCTION.

eBay respectfully requests the Court exclude any reference to, or reliance on, the settlement agreement between MercExchange and GoTo.com regarding the '176 patent. As set forth in defendants' other motions in limine, MercExchange has repeatedly attempted to create self-serving "evidence" to use against eBay, including: an inadmissible and meaningless "confession" by insolvent ReturnBuy (Motion in Limine No. 1), a series of self-dealing transactions between members of the "Aden family," (Motion in Limine No. 2), and an admittedly irrelevant press release/agreement with eBay's rival, AutoTrader (Motion in Limine No. 3).

Like MercExchange's other attempts to create evidence, the MercExchange/GoTo settlement has no probative value in this case. As GoTo.com's corporate designee testified, GoTo had *already left* the allegedly infringing shopping business, and settling was *zero cost* to GoTo, as the funds came from an separate escrow account set up for such contingencies. Thus, GoTo had little incentive to continue litigating, and "we wanted basically never to deal with MercExchange again." (*See* McFarland Decl. Ex. 1 (Ryan TR 10:11-12.)

Consequently, the Court should enter the attached order, excluding any reliance on, or evidence of, the GoTo settlement and license. FED. R. CIV. P. 403.

II. BACKGROUND.

Before this suit, MercExchange sued GoTo for allegedly infringing the '176 patent. By June 1, 2001, GoTo had quit its (allegedly infringing) shopping business, and had decided to terminate its auction business as well. Thus, GoTo had little reason to continue to litigate the '176 patent, and it had access to an escrow account, established for such contingencies. Consequently, although GoTo already had a motion for summary judgment on file, GoTo decided to settle. (McFarland Decl. Exs. 2-4 (GoTo.com' Motion for Summary Judgment, GoTo.com's Statement of Undisupted Facts, Declaration of Arthur M. Keller). GoTo's corporate designee, Mr. Ryan, explained:

> Mr. Ryan, without telling me any confidential information, as your attorney has instructed you, can you please tell me the reasons for entering into the settlement agreement dated June 1, 2001 between GoTo.com and MercExchange?
>
> A. There are three primary reasons that we entered into the settlement, the first of which was *the settlement involved no cost to Overture.com or Overture Services or GoTo.com at the time*. The moneys in the escrow accounts associated with both our shopping and auction businesses were sufficient to cover both the settlement as well as the fees associated with the settlement.
>
> The second primary reason was that at the time of the settlement *we had already exited the shopping business* by closing down our shopping subsidiary, and we were investigating strategic alternatives for our auctions division, of which shutting it down or selling it were the two primary strategic alternatives. *We had decided to exit both of these businesses*.

> The third primary reason was we didn't—we wanted basically never to deal with MercExchange again on topics related to this form of case.

(McFarland Decl. Ex. 1 (Ryan TR 9.21-10:3)). Thus, GoTo had little incentive to litigate further, and settled the case for the less than the amount in the escrow account—a "zero cost" settlement for GoTo (now known as Overture).

> [T]he settlement amount in addition to the cost of litigation was satisfied by the escrow accounts, so there was no, you know—there was just financial reasons to settle it at that point, considering it was at zero cost to Overture [GoTo].

(McFarland Decl. Ex. 1 (Ryan TR 20:8-12) (emphasis added)).[1]

III. ARGUMENT.

A. The zero-cost GoTo agreement does not establish a "reasonable royalty."

MercExchange argues that the GoTo Agreement establishes a "reasonable royalty" for Mr. Woolston's patents. (McFarland Decl. Exs. 5-6 (Evans Rep. at 22, Ex. B at 1; Troxel Rep. at 16-17.) However, MercExchange ignores the black letter law, which holds that such agreements are unreliable:

> It is a century-old rule that royalties paid to avoid litigation are not a reliable indicator of the value of a patent, and should therefore be disregarded when determining reasonable royalty rates. This is because royalties paid

---

[1] The GoTo designee, Mr. Ryan, testified that "the escrow accounts were established at the acquisition of both our shopping subsidiary and our auctions subsidiary, and they were set aside for contingencies such as this. The moneys in the escrow account at the time of the settlement were sufficient to pay not only the settlement, but also the fees associated with the settlement." (McFarland Decl. Ex. 1 (Ryan TR 10:24-11:6)).

> under threat of suit may reflect the licensee's desire to avoid the risk and expense of litigation.

Wang Labs., Inc. v. Mitsubishi Elec. Am., Inc., 860 F. Supp. 1448, 1452 (C.D. Cal. 1993) (citing *Rude v. Wescott*, 130 U.S. 152, 164 (1889)); *see also Cornely v. Marckwalkd*, 131 U.S. 159, 160-161 (1889) (holding that ten licensing agreements did not prove an established royalty rate because all were formed in settlement of litigation).

> [A] royalty, if any, resulting from [settlement of a prior litigation] should not be considered evidence of an "established" royalty and thus a measure of adequate damages here. . . . License fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation.

Studiengesellschaft Kohle, m.b.H., v. Dart Indus., Inc., 862 F.2d 1564, 1572 (Fed. Cir. 1988) (quoting *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1164, n.11 (6th Cir. 1978) (internal cites and quotations omitted)).

B. The GoTo agreement does not prove the patents are valid.

MercExchange incorrectly contends that the GoTo Agreement is relevant to showing "commercial success and non-obviousness of the '176 Patent." In fact, the GoTo agreement merely illustrates that MercExchange, with its "litigious nature," was able to capitalize on unique situation—GoTo had access to escrow accounts set up for such contingencies, had discontinued its allegedly infringing shopping business, and thus, was able to pay the settlement at "zero cost." In fact, although GoTo signed the license agreement, it had contested the validity and infringement of the '176 patent, and had a motion for summon,' judgment pending. GoTo settled because it had left the business, could settle for zero cost, and "we wanted basically never to deal with Merc-

Exchange again." (*See* McFarland Decl. Ex. 1 (Ryan TR 10:11-12.)

MercExchange's strategy is not new, and it does not prove that the Woolston patents are valid. While "it is not unusual to see astute businessmen capitalize on [the issuance of a patent] by erecting a temporarily successful licensing program," such licensing "programs are not infallible guides to patentability." *EWP Corp. v. Reliance Universal Inc.*, 755 F.2d 898, 907-08 (Fed. Cir. 1985) (holding patent invalid under Section 103 despite existence of licensing program). In particular, when it is "cheaper to take licenses than to defend infringement," a license does not prove that a patent is valid. *See Id.*

Thus, the GoTo.com Agreement has no bearing on obviousness of the '176 patent, and the Court should preclude MercExchange from relying on it for any purpose at trial.

IV. CONCLUSION.

Like the rest of MercExchange's "licensing program," addressed in Defendants' Motions in Limine Nos. 1-3, the GoTo Agreement proves only that MercExchange is opportunistic. The Court should exclude the GoTo Agreement and settlement, as set forth in the attached proposed order.

Dated: March 24, 2003 Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

CASE NO. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

VS

EBAY, INC., HALF.COM, INC. and RETURNBUY, INC.,
Defendants.

EXCERPTED DEPOSITION OF JEFFREY KRAUSS

DATE: March 25, 2003

TIME: 10:07 a.m.

LOCATION: COOLEY GODWARD, LLP
Five Palo Alto Square Third Floor
San Jose, California

* * * *

[21] off, why don't you try and explain to me, if you could, prior to this last month where you transitioned away, what your job responsibilities entailed.

A. My job responsibilities entailed making it easier for users on eBay to use the PayPal payment system.

Q. And is that a role you took on since the acquisition of PayPal?

A. Yes.

[22] Q. The Billpoint system was also known as eBay Payments; correct?

A. Yes.

Q. At some point Billpoint rebranded itself to be eBay Payments; correct?

A. Yes.

Q. What's your understanding as to why Billpoint rebranded itself to be eBay Payments?

THE WITNESS: I should also say that it was oftentimes referred to as eBay Payments by Billpoint.

Q. Is it called eBay Payments online by Billpoint?

A. It went through a number of different [23] changes. There had been an eBay online Payments by Billpoint, eBay Payments by Billpoint. Sometimes for shorthand it was referred to as eBay Payments as well.

Q. Okay. At some point did it have the tag line "eBay Payments, The eBay Way to Pay"?

A. Yes.

Q. Why did you think the change from Billpoint to eBay Payments would make the user feel more [24] comfortable using the service?

THE WITNESS: It makes a user feel like this is a service that is kind of—if you go to Amazon.com, you go through a payment flow which looks like Amazon.com, feels like Amazon.com. Same thinking here. By making a name that feels like it's on the eBay site, we thought it would make users feel more comfortable.

[25] Q. In other words, it would be sort of seamlessly integrated into the eBay web site; correct?

A. We use the term "seamlessly integrated," yes.

Q. Billpoint, I will represent to you, on its web page "About Us" indicates that "The eBay [26] community had long desired a payment solution that could be seamlessly integrated into the over-all eBay transaction experience."

Does that reflect the testimony that you've just given?

THE WITNESS: Yes.

Q. Okay. I mean, it's consistent with what you've just told me; correct?

A. What specifically is consistent?

Q. Let me read it to you again. I'm sorry. This was an exhibit yesterday. If Mr. Teter has one, maybe you can look on. But let me read it to you again.

It says, "The eBay community had long desired a payment solution that could be seamlessly integrated into the overall eBay transaction experience."

Is that sort of a fair assessment of what Billpoint was trying to do?

[27] THE WITNESS: Yes, I think what you're reading is some-thing that from a marketing perspective, yes, makes—it's correct.

Q. You said that your responsibilities as a senior product manager for eBay was attempting to make it easier to use online payment systems such as PayPal and Billpoint.

Can you tell me—give me some examples, sir, if you would, as to what specific things that eBay did with Billpoint or PayPal to try and make it easier for consumers to use that service?

A. We put buttons that said "Pay Now" onto the item listing page on eBay so that when an item closed, could you click on the button, and it would pass the user over to Billpoint to pay for the item.

Q. So if you clicked on that button, you'd go instantly to the Billpoint web site in order to pay for the item?

A. Well, originally there was a log-in—I [28] believe, because this was a few years ago, there was a log-in which verified that the user was, in fact, the winner of the item, and then we passed the user or the seller of the item, and then we passed the user directly to Billpoint.

Q. I'm sorry. Go ahead.

Any other examples besides this items listing with a link that would take you to Billpoint?

A. We did something we called Instant Purchase, which allowed a seller, when he listed an item, to specify shipping information and sales tax information, and when the item ended, then that information—when the user went to pay, that information would be passed over to Billpoint so that Billpoint could charge the user the correct total amount.

Q. Let me stop you there and ask you, when did you institute this instant purchase option, if you can recall?

A. I don't recall the exact time.

Q. More than a year ago?

[29] A. Yes.

Q. More than two years ago?

A. I believe so.

Q. Is it still available?

A. It's not available in that exact incarnation, but that functionality is still available.

Q. Okay. Is that available as part of the registration process for a seller, or is that part of the checkout process now?

A. That's more of the checkout process.

Q. Okay. And as part of the checkout process, is there a button or link that takes you directly—or at some point in time took you directly to Billpoint?

A. No, it did not take you directly to [30] Billpoint. It—the flow started on the eBay site. The user then had the option of a number of different payment methods to select from, one of which was Billpoint. If the user selected that, the user was passed over to the Billpoint site.

Q. Okay. But—so there was an option to select Billpoint, and at that point if you clicked on the link, you would go to Billpoint if you had, in fact, selected that as your payment means; correct?

A. Yes. Clicked on the button, yeah.

Q. And eBay embedded that link in its web site page; correct?

A. To be clear, it wasn't a link. There was a list of options that a user could choose from, check, for example, money order, for example.

Billpoint/eBay Payments was one of those options that was in that list. When the user selected that, clicked the button to continue, the user would be passed over to the Billpoint site.

Q. Okay. So the first thing you did was select the option, and then you had clicked the [31] button, and if you'd selected Billpoint, you'd be passed over to the Billpoint web site in order to process the transaction; correct?

A. Yeah, to process the payment.

Q. All right. As part of—well, let me ask you if this is accurate: Yesterday Mr. Gilmer testified that in order to be a Billpoint registered user, you needed to be an eBay registered user.

Is that accurate?

A. Yes.

Q. Okay. So Billpoint—all Billpoint users were eBay registered users?

A. Yes.

Q. Presently when a seller registers, it can tell eBay its preferred payment method; correct?

A. When a seller—

Q. Registers with eBay. Can it say, "I will accept PayPal," for example?

A. No, that's not part of the registration [32] process.

Q. Okay. What is that—what part of the process is that, when a seller can indicate that it wants the preferred payment? Is it when it lists an item?

A. Yes, and it—to be clear, it's not a preferred payment method. He just lists the payment methods he's willing to accept. There's no notion of a preferred method from a seller's perspective.

[33] Isn't it true that now as part of the List Your Items process eBay has a default mechanism which automatically selects PayPal as the payment processing means?

THE WITNESS: PayPal is automatically selected in certain cases. So if you are a new seller on eBay and you meet—you.don't fall into—and you're in a country that's supported by PayPal, that option is defaulted on. The user has the option to turn it off.

Q. Okay. And you indicate that's for new sellers; is that right?

A. The check box is available to everybody, but it's defaulted on for new sellers.

[34] Q. And how long has that default payment process for PayPal for new sellers been in place?

A. Since we launched the PayPal system in October of 2002.

[35] Q. Okay. If the seller for the item that I was the winning bidder, for example, has designated that they want PayPal to be the means by which the buyer pays, does that appear on the buyer's My eBay [36] page?

A. Before the buyer has paid, no. It just has a button that leads a user into the payment flow, and then all of the sellers—there's various options a seller can set which affect how that appears. But all of a seller's options are shown in that—in the checkout process, all of those payment options that the seller accepts.

Q. So if the payment—excuse.me. I misspoke.

If the seller has indicated that he will accept PayPal, that would appear on the buyer's My eBay page?

A. No.

Q. I just misunderstood you.

A. When a buyer clicks on the "Pay Now" Button—

Q. Yes.

A.—he'll go to a page where it says to the buyer, this is how it works today, "How do you want to pay?" And it will

give the buyer all of the options that the seller has available.

[37] Q. Okay. And if one of the options is PayPal, is there a button he can click on, a Pay Now button that he clicks on or some button that would then take him through the PayPal payment process?

A. There's a—what we call a radio button. Essentially a user can select the option similar to what I was talking about before. There's a way a user can select the PayPal option, click a button, and that would take him to PayPal's site.

[38] Q. Okay. So you're generally both as a user of the eBay system and as the senior product manager involved in this kind of transaction processing, you're familiar with the operations of . . . .

* * * *

[148] . . . this is definitely true.

Q. Well, how about from a technical perspective? Isn't incorporating PayPal's functionality into the eBay platform—don't you think it will fundamentally strengthen the user experience and allow buyers and sellers to trade with greater ease, greater speed and greater safety?

A. Yes. Looking at the—a lot of features that we've looked at today so far with that payment process, for example, the fact that you can get there from eBay, you know, if that's the integration we're talking about, then yes, I do think it has strengthened the user experience and allowed buyers and sellers to trade with greater ease, speed, and [149] safety.

Q. eBay paid $1.5 billion for PayPal in this acquisition; correct?

A. Right.

THE WITNESS: As far as I know, that's what it says is the cost.

[171] Q. Can a user be suspended from using eBay's services if they violate the user agreement?

A. Yes.

Q. In fact, eBay has suspended users for violating its user agreement; isn't that correct?

THE WITNESS: Yes, users have been

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., a Delaware Corporation, and HALF.COM, INC., a Pennsylvania Corporation,
Defendants.

EBAY AND HALF.COM'S MEMORANDUM IN SUPPORT OF MOTION IN LIMINE No. 11

MOTION TO EXCLUDE DR. ALFRED WEAVER'S PROPOSED TESTIMONY REGARDING DEFENDANTS' ALLEGED "TRANSFER OF OWNERSHIP."

I. INTRODUCTION.

eBay respectfully requests the Court exclude the erroneous testimony of MercExchange's proposed expert witness, Dr. Alfred Weaver, regarding defendants' alleged "transfer of ownership" and the '265 patent. Controlling Supreme Court and Fourth Circuit authority require exclusion of the proposed testimony for at least the following reasons:

- First, Dr. Weaver's opinion that defendants "transfer ownership" is based entirely on his understanding of legal rather than technical issues. Dr. Weaver is not a lawyer and MercExchange has never identified him as a legal expert, but nonetheless proffers his opinion on "legal entitlement to a good," "the question [of] whether a buyer has a legally cognizable right to the

good," and what legal rights and obligations are "established under the [eBay and Half.com] user agreement." Such opinions are not based on any technical or specialized knowledge of Dr. Weaver, and are therefore unreliable and inadmissible under *Daubert*.

- Second, permitting Dr. Weaver, who has been identified as an expert on *technical issues*, to offer an erroneous opinion on a legal issue beyond his personal specialized knowledge would only serve to confuse the jury and prejudice defendants. Dr. Weaver can at best offer lay opinion or reiterate erroneous *lawyer argument* on what Dr. Weaver himself characterizes as a *legal question*—whether defendants transfer ownership of goods listed on their sites. Such testimony carries no legitimate probative value, and will clearly confuse the jury and prejudice defendants. Accordingly, the Court should exclude Dr. Weaver's opinion regarding transfer of ownership. Fed. R. Evid. 403.

Thus, eBay and Half.com respectfully request the Court enter the attached order, precluding Dr. Weaver from providing any opinion at trial regarding the alleged "transfer of ownership" of goods on the defendants' sites.

II. BACKGROUND.

A. The '265 patent envisions a trusted intermediary that "Transfers Ownership" of a good from the Seller to the Buyer.

To address the alleged need to speculate on baseball cards and collectable goods, Mr. Woolston envisioned a "trusted intermediary" system. Mr. Woolston's trusted intermediary system used consignment nodes to take possession of a good, track ownership of the good in a database, and transfer legal ownership of that good *throughout the trusted system*, without shipping the good. *See* '265 Patent Col. 1:23-26 ("The

prior art does not provide a means to electronically market used goods or provide an avenue to allow participants to speculate on the price of collectable or used goods in an electronic market place."). Because the trusted intermediary possessed the good and would transfer ownership itself without further actions by the buyer or seller, it offered immediate legal finality of transaction and enabled a buyer to speculate by reposting the good for sale without having to wait for delivery of the item from the seller. *See* '365 Patent Col. 3:35-41 (". . . the participant may take electronic legal ownership of a good . . . [t]his allows a participant to speculate with collectable goods on the consignment node network's different markets and not incur the shipping costs with physically moving the goods, while providing a trusted means to assure potential buyers of the good's bona fide availability and legal title."). Thus, the trusted intermediary's transfer of legal ownership permitted a good to be rapidly traded, and thus, allegedly created a "market" for that good. *See, e.g.*, '365 Patent Claim 8 ("then *transfer the ownership* of said good for sale by modifying said data record of said good for sale to reflect the new ownership").

B. Dr. Weaver, a non-lawyer, purports to offer an opinion about legal transfer of title.

MercExchange's proposed expert on the '265 patent, Dr. Alfred Weaver, offered an erroneous law opinion that "legal title to the good" is transferred on the eBay system:

> In my opinion, the updating of the data record by the eBay transaction processor [sic] to indicate the name of the winning bidder and to confirm that the winning bidder's payment had been processed through the transaction processor [sic] *transfers legal title to the good.* Pursuant to the user agreement with eBay, the winning bidder, upon making payment, *is legally entitled to the good.* Contrary to Dr. Wellman's position set forth in the Wellman Supplemental Report, *legal entitlement to a*

> *good* does not require that the system enforce a transfer of physical possession of a good. Rather, t*he question is whether a buyer has a legally cognizable right to the good, which in my opinion, is clearly established under the user agreement.*

(McFarland Decl. Exh. 1 Weaver Supp. Rpt. (Feb. 21, 2003) ¶ 54 (emphasis added)). In fact, eBay's system does not transfer title to any good, and Dr. Weaver has no qualifications to opine otherwise.

III. ARGUMENT.

A. Experts are permitted to testify only as to matters within their own specialized knowledge.

Federal Rule of Evidence 702 provides: "If scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue, a witness qualified as an expert by knowledge, skill, experience, training, or education, may testify thereto in the form of an opinion or otherwise." FED. R. EVID. 703.

> A district judge, considering a proffer of expert testimony under Federal Rule of Evidence 702—whether based on scientific, technical, or other specialized knowledge—must, in determining its admissibility, ensure that the evidence is "not only relevant, but reliable." A reliable expert opinion must be based on scientific, technical, or other specialized knowledge and not on belief or speculation.

Oglesby v. General Motors Corp., 190 F.3d 244, 250 (4th Cir 1999) (quoting *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 589 (1993)). Dr. Weaver's opinion on "transfer of title" is *not* based on "scientific, technical, or other specialized knowledge," will not assist the jury, and therefore, should be excluded.

B. Dr. Weaver's legal opinion on transfer of ownership should be excluded under Fed. R. Evid. 702 and *Daubert*.

Dr. Weaver is an alleged expert in "Computer Science and Engineering." He is not a legal scholar, has no legal training, and is neither qualified to interpret a contract[1] nor offer an opinion on its legal effect. *Shreve v. Sears, Roebuck & Co.*, 166 F. Supp. 3d 378, 391 (D. Md. 3001) ("[T]here are many different kinds of experts, and many different kinds of expertise.' The fact that a proposed witness is an expert in one area, does not ipso facto qualify him to testify as an expert in all related areas.") (quoting *Kumho Tire Co. v. Carmichael*, 536 U.S. 137, 150 (1999)).

Courts and commentators have repeatedly recognized that technical experts should not be permitted to testify about legal issues, which should be left for lawyers to argue and the courts to decide. Modern expert practice "has led to some unfortunate abuses. Examples abound of judges who have allowed experts to testify to legal conclusions, essentially telling the jury how to decide the case." L. Timothy Perrin, *Expert Witness Testimony: Back to the Future*, 29 U. Rich. L. Rev. 1389, 1400 (Dec. 1995). "Stated more directly, the trial judge ought to insist that a proffered expert bring to the jury more than lawyers can offer in argument. It is too easy for the expert to become nothing more than an advocate of policy before the jury." *Salas v. Carpenter*, 980 F.3d 299, 305 (5th Cir. 1993). *See also Askanase v. Fatjo*, 1996 WL 3373364 (S.D. Tex. 1996) ("in some cases, expert testimony can too easily turn the 'ultimate issue' into 'whatever [the] expert says it is' . . . [the excluded] testimony offers nothing more than a lawyer's arguments on matters of law"). The Federal

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[1] *See Johannssen v. Dist. No. 1-Pac. Coast Dist. MEBA Pension Plan*, 292 F.3d 159, 171 (4th Cir. 2002) ("contract interpretation is a question of law").

Circuit observed: "*An expert's opinion on the ultimate legal conclusion is neither required nor indeed 'evidence' at all.*" *Nutrition 21 v. United States*, 930 F.3d 867, 871 n.2 (Fed. Cir. 1991) (emphasis added).

Because Dr. Weaver's legal opinion that eBay and Half.com transfer ownership of goods listed on their sites is not based on "knowledge, skill, experience, training, or education," Rule 702 precludes him from offering such testimony at trial.

C. Dr. Weaver's lay opinion on the law has no probative value, will only confuse the jury and prejudice defendants, and should be excluded under Rule 403.

Federal Rule of Evidence 403 provides that, "[a]lthough relevant, evidence may be excluded if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury." FED. R. EVID. 403. Dr. Weaver's lay legal opinion[2] is precisely the sort of evidence Rule 403 was intended to address.

As discussed above, Dr. Weaver is not qualified to interpret the legal effect of a contract or offer a legal opinion on the creation of "legally cognizable rights." Thus, his erroneous opinion that defendants transfer ownership is not probative of *anything*. *See Nutrition 21*, 930 F.2d at 871 n.2 ("An expert's opinion on the ultimate legal conclusion is neither required nor indeed 'evidence' at all."). However, because Dr. Weaver will presumably be identified to the jury as an expert witness, permitting him to offer his lay legal opinion from the stand will almost certainly confuse the jury. *See Jinro America, Inc. v. Secure Investments, Inc.*, 366 F.3d 993, 1004 (9th Cir. 3001) (allowing a witness to come "before the

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[2] Even if Dr. Weaver were not offered as an expert witness, such testimony is inadmissible under Federal Rule of Evidence 701, as Dr. Weaver's legal opinion is neither rationally based on his own experience nor helpful in determining any issue in the case.

jury cloaked with the mantle of an expert . . . is significant for two reasons: First, it allows) him to testify based on hearsay information, and to couch his observations as generalized 'opinions' rather than as firsthand knowledge . . . Second, as the opinion of a purported 'expert' . . . his statements [a]re likely to carry special weight with the jury"). Learned Hand, *Historical and Practical Considerations Regarding Expert Testimony*, 15 Harv. Rev. 40, 52 (1901) ("*the expert has taken the jury's place if they believe him*"). Moreover, because Dr. Weaver's opinion regarding the transfer of legal title is erroneous, the prejudice from allowing such testimony is inevitable. Accordingly, the Court should exclude Dr. Weaver's "transfer ownership" opinion.

IV. CONCLUSION.

Dr. Weaver is a technical expert, with no qualifications to offer an opinion that the defendants "transfer ownership" of goods listed on their sites. Consequently, the Court should restrict Dr. Weaver's testimony, as set forth in the attached proposed order.

Dated: March 27, 2003 Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Apr. 3, 2003]

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

eBAY, INC., *et al.*,
Defendants.

ORDER AND OPINION

Presently before the court is an Expedited Motion to Enforce this court's February 14, 2003 Order and Opinion to MercExchange's Renewed Attempt to Relitigate and Reopen the Motion to Reconsider the Motion to Reconsider and Markman Proceedings, filed by eBay and Half.com ("defendants"). In this Motion, the defendants seek to prevent MercExchange, L.L.C. ("plaintiff") from (1) submitting new expert testimony from Dr. Weaver on U.S. Patent No. 6,303,051 ("the '051 patent"), and (3) changing its position with respect to defendants' infringement of U.S. Patent No. 5,845,265 ("the '365 patent"). For the reasons more fully articulated below, the defendants' Motion is GRANTED in part and DENIED in part.

I. The '051 Patent Issue

On February 14, 3003, the court entered an Order and Opinion which, *inter alia*, granted summary judgment of invalidity of the '051 patent.[1] The court refused to reopen the

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[1] The plaintiff makes reference to this February 14, 2003 Opinion, speculating that the defendants may decide to appeal the court's denial of

proceedings and permit the plaintiff leave to submit supplemental expert reports, specifically that of Dr.

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their Motions for Summary Judgment of Non-infringement and Inequitable Conduct. However, the plaintiff misstates the court's Opinion. The court denied these Motions simply because the '051 patent had been invalidated based on a previous ruling by the court. Had the '051 not been invalidated, the court would have conducted further proceedings regarding the defendants' Motions, particularly with respect to the inequitable conduct allegation.

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,
Plaintiff,

v.

eBAY INC., a Delaware Corporation, and HALF.COM, INC.,
a Pennsylvania Corporation,
Defendants.

EBAY AND HALF.COM'S REPLY IN SUPPORT OF MOTION IN LIMINE NO. I:

MOTION TO EXCLUDE EVIDENCE OF INSOLVENT RETURNBUY'S "CONFESSION" AND LICENSE/SETTLEMENT AGREEMENT WITH MERCEXCHANGE.

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

I. INTRODUCTION.

MercExchange's continued attempt to rely on the ReturnBuy "confession" and the abandoned ReturnBuy license agreement—including MereExchange's rush to the Federal Circuit in a *quasi-*

mandamus attack against Judge Friedman—speaks volumes about MereExchange's misguided efforts to fabricate "evidence" for this case. *MercExchange ignores the Federal Rules of Evidence, and offers no substantive response whatsoever to defendants' objections.* Instead, MercExchange offers a diatribe about eBay in an effort to convince the Court that MercExchange's effort to fabricate the ReturnBuy "evidence" is "relevant"—an argument that misses the point.[1] The question is not whether the ReturnBuy "confession" is "relevant," but rather, whether the evidence is *admissible* under the Federal Rules. As set forth in eBay's opening brief, the ReturnBuy evidence is indisputably *inadmissible*, and allowing Mr. Woolston to present it to the jury would create confusion, prejudice, and plain error.

- First, MercExchange *agrees that* the ReturnBuy "confession" came long *after* the close of discovery, and MercExchange acknowledges that it refused to allow any discovery into it. Nonetheless, MercExchange inexplicably argues that defendants' request for discovery, including the depositions of the individuals who negotiated the "confession" and all documents regarding it, was "frivolous." Under MercExchange's flawed logic, *all* discovery is "frivolous"—including the *fifty days of deposition that* MercExchange took of defendants.

- Second, the evidence is inadmissible hearsay under Federal Rules of Evidence 801, not covered by any exception. In a transparent attempt to mislead the Court, MercExchange tells the Court that the sham "confession" is an "admission of a party-opponent." MercExchange apparently expects

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[1] In fact, contrary to the false claims that MercExchange *made* to Judge Friedman in its summary judgment briefs, the "valuable license agreement" was *abandoned in* bankruptcy court. The United States Bankruptcy Court for the Eastern District of Virginia has ordered that the new operator of the ReturnBuy site, Jabil Circuit, is not bound by the MercExchange "license," or by the bogus ReturnBuy "confessions." MercExchange has *never* made a penny from the abandoned ReturnBuy "license," and quite likely, never will.

the Court to ignore the case caption, and the Federal Rules of Evidence. An admission of a party-opponent is admissible *only against the party-opponent—and* ReturnBuy is not a party to this case. Allowing the "evidence" would be plain error.

- Third, MercExchange does not address the fact that the ReturnBuy "confession"/license/settlement—extracted from an insolvent company in the midst of selling its assets—has *no* probative effect whatsoever, yet is extraordinarily prejudicial. MercExchange *admits* that the ReturnBuy license has been *abandoned* in bankruptcy. MercExchange *admits that* nobody wanted the exorbitant ReturnBuy license, and MercExchange apparently concedes that it will never receive a penny from it. Nonetheless, MercExchange proclaims that the abandoned license establishes a "reasonable royalty." In fact, the ReturnBuy episode proves the *opposite*.

- •Fourth, MercExchange fails to address the fact that the ReturnBuy "confession"/license/settlement—an inherently unreliable "confession" about pending *legal issues—is an* inadmissible opinion under FED. R. EVID. 701. MercExchange irrelevantly notes that Mr. Shill has been in business a long time, a fact that does not qualify him to provide hearsay opinion evidence in a federal litigation.

MercExchange's attempt to fabricate evidence, and its misguided efforts to mislead the Court during the '265 summary judgment briefing, should not become a sideshow at the jury trial. MercExchange had eleven days to consider the Rules of Evidence, but in the end, *did not even cite them in its opposition brief*. In effect, Motion in Limine No. 1 is uncontested.

II. ARGUMENT.

A. MercExchange's *quasi-mandamus attack* against Judge Friedman in the Federal Circuit reveals MercExchange's bad faith.

The Court's February 26, 2003 consent judgment between RetumBuy and MercExchange contains the following clear, and correct, provision: "Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com, and MercExchange in this case." The Court was undoubtedly correct as a matter of law. Nonetheless, MercExchange has marked the Court's order as a *trial exhibit,* and apparently intends to use it to confuse the jury *as* part of the RetumBuy "confession" story.

Although MercExchange suggests that it *agrees* with the Court's order, (Merc. Opp. Br. at 13-14), it fails to inform the Court that, just *as* MercExchange lashed out at Commissioner Mossinghoff, who dared offer his opinion that MercExchange committed inequitable conduct, MercExchange has now lashed out at Judge Friedman, filing a *quasi-mandamus* "appeal" of the RetumBuy consent judgment. MercExchange knows that it has no basis to "appeal" a *consent judgment,* and is merely forcing eBay and Half.com to intervene at the Federal Circuit, and incur further legal expense responding to MercExchange's bad faith conduct.

B. MercExchange cannot ignore defendants' right to discovery.

MercExchange *concedes* that defendants had no discovery into the RetumBuy/MercExchange settlement, which MercExchange describes as an "unholy alliance." Mr. Woolston received exactly what he requested—a "confession," that he could parade to the media, and a chance to mislead the Court on MercExchange's '265 motion for summary judgment. Mr. Shill received a dismissal with prejudice *for nothing,* and then discarded the license in bankruptcy. For obvious reasons, defendants were entitled to take discovery on these issues, and MercExchange, for obvious rea-

sons, refused. This is not a close call. The Court should exclude the evidence.

C. MercExchange's "admission" argument is frivolous—ReturnBuy is not a party-opponent, and is no longer in this case.

MercExchange frivolously argues that "ReturnBuy's 'confessions' constitute an admission of a party-opponent." (Merc. Opp. Br. at 6). The argument is yet another bad faith effort to deceive the Court, and create plain error. No attorney could make it in good faith; and no case supports it. MercExchange's trial attorneys know that admissions are admissible against only the party making them. ReturnBuy is no longer a "party-opponent," and the "confession," obviously, is not offered against it. *See* Fed. R. Evid. 801(d). MercExchange's "admission" argument is frivolous.[2]

D. MercExchange concedes that the evidence of the ReturnBuy "confession" is inadmissible lay opinion.

MercExchange apparently concedes that the ReturnBuy confession is an "opinion," but completely ignores the law on the subject. Instead, MercExchange irrelevantly notes that Mr. Shill holds various degrees, including "an MA in Asian studies from the University of Virginia," and has worked in business for a long time. (Merc. Opp. Br. at 2, n.1). Mr. Shill's background does not entitle him to offer lay-opinion "confessions" about patent law, and no authority suggests otherwise.

E. MercExchange does not cite Rule 403, much less overcome the objection.

MercExchange concedes that ReturnBuy was insolvent, and admits that the license has been discarded in bankruptcy. Return-

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[2] MercExchange's only case, *Precision Piping & Instruments v. E.I. DuPont*, 951 F.2d 613 (4th Cir. 1991) *excluded* hearsay statements, and does *not* hold or suggest that a *non-party's* hearsay statement is a party-admission that may be introduced at trial.

Buy's assets now belong to Jabil Circuit, which did *not* accept the ReturnBuy license or "confession," and as the Eastern District Court has held, *is not bound by it*. (McFarland Decl. Ex.6 *(In re ReturnBuy, Inc*. Order Approving Asset Purchase Agreement with Jabil Global Services, Inc. Authorizing the Sale of Substantially All Assets, C.N. 03-10324-SSM (Mar. 4, 2003)).

Under these circumstances, the "confession" and license agreement are absolutely inadmissible, and have no probative value whatsoever. MercExchange has never received *a penny* from them, and likely, never will. The parties agree that the evidence is prejudicial, and MercExchange admits that it will make a host of statements about it at trial, hoping to "embarrass" eBay and its attorneys. The ReturnBuy "confession"/license is exactly the sort of *material that* Rule 403 is meant to exclude. *See, e.g., Glaros v. H.H. Robertson Co.*, 797 F.2d 1564, 1572-73 (Fed. Cir. 1986) (excluding evidence that "would have injected frolics and detours and would have required introduction of counter-evidence").

III. CONCLUSION.

The ReturnBuy "confession" is nothing more than fabricated "evidence" to deceive the Court and the jury. After MercExchange failed to deceive Judge Friedman during the '265 summary judgment briefing, the license agreement was discarded in bankruptcy, and the Bankruptcy Court for the Eastern District of Virginia held that Jabil Circuit, which purchased ReturnBuy's assets, is not bound by the agreement or the "confessions" in it. MercExchange's diatribe—which ignores the Federal Rules and does not address many of eBay's objections—is frivolous. MercExchange's *quasi-mandamus* attempt to "appeal" the consent judgment is unconscionable, and demonstrates MercExchange's bad faith. The Court should exclude all reference to, reliance on, and evidence of, the ReturnBuy "confession"/license settlement at trial.

Dated: April 9, 2003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company.
Plaintiff,

v.

EBAY INC., a Delaware Corporation, and HALF.COM, INC.,
a Pennsylvania Corporation,
Defendants.

EBAY INC. AND HALF.COM INC.'S OBJECTIONS TO AND APPEALS FROM CERTAIN EVIDENTIARY RULINGS MADE BY JUDGE BRADBERRY DURING PRE-TRIAL CONFERENCE.

FILED UNDER SEAL

THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION.

RESTRICTED DOCUMENT—FILE SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER.

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I. INTRODUCTION.

Defendants eBay Inc. and Half.com. Inc. respectfully object to. and appeal from. certain rulings entered by Judge Bradberry during the pre-trial conference on April 10, 11. and 12. As an initial point, the defendants acknowledge and appreciate the enormous effort expended by Judge Bradberry and the entire Court staff to prepare for and conduct the pre-trial conference in this difficult and complex case. Due to the Court's preparation and patience. the parties were able to obtain rulings on the admissibility of hundreds of exhibits and deposition designations and resolve several other outstanding issues for the trial next week. Again, the defendants appreciate the enormous effort, which included the entire court staff sacrificing a Saturday to complete the pre-trial conference. However, as would be expected in ruling on the admissibility of literally hundreds of exhibits and deposition designations, there are a limited number of rulings of significant importance to the defendants in this important trial, which defendants respectfully contend were incorrectly decided, and will materially prejudice the defendants at trial. Accordingly, in addition to the other issues the defendants have appealed to date (the four experts (Dkt. 394), the five percipient witnesses (Dkt. 393), and the RetumBuy "confession" (served Saturday, filed April 14, 2003)) the defendants object to, and appeal from, the following rulings made by Judge Bradberry during the pre-trial conference.

II. APPEAL FROM RULING PERMITTING THE CROSS-EXAMINATION DEPOSITION TESTIMONY OF MESSRS. BASIL, DIMAGGIO, MAGLIOTO AND CHOY, BUT EXCLUDING THEIR DIRECT EXAMINATION STATEMENTS (DEFENDANTS' EXHIBITS 45, 79, 83, 86, 578, 579), WHICH WERE SUBJECT TO FULL, FAIR, AND INTENSE CROSS-EXAMINATION.

Defendants respectfully appeal Judge Bradberry's order admitting the cross-examination deposition testimony of Messrs. Basil, DiMaggio, Magliato, and Choy, but excluding their direct testimony.[1] Admission of MercExchange's cross-examination of these witnesses, without the benefit and context of their underlying direct testimony witness statements, will present the jury with a needlessly confusing and incomplete view of the evidence.

Messrs. Basil. DiMaggio. and Magliato are important witnesses who presented direct testimony through individual declarations describing the prior art systems that they designed built, and operated before Woolston wrote his patent applications. Defendants assert that the prior art of these witnesses invalidates the '176 and '265 claims, and each of the witnesses submitted direct testimony witness statements. Mr. Choy described his system which similarly disclosed many of the concepts claimed in the '176 and '265 Patents and served *as an* example of what was known in the art at the relevant time period. The declarations from these witnesses naturally focused on their *systems*, not on the patents-in-suit (which they had never read). MercExchange fully cross-examined each witness at depositions. Judge Bradberry admitted the portions of the cross-examinations but *excluded the witnesses' direct testimony witness statements in their*

[1] The direct testimony of these witnesses were submitted in the form of sworn declarations marked as Defendants' trial exhibit nos. 45, 79, 83, 86, 578, 579.

entirety, on the grounds that declarations should not be handed to the jury.

Defendants respectfully request the Court reverse its decision, or, at a minimum, permit the direct testimony witness statements to be read to the jury before MercExchange's cross examination is played. Excluding the declarations entirely is plain error. This is not the case of an eleventh hour declaration submitted on the eve of trial without any opportunity for cross-examination. MercExchange received and fully cross-examined the witnesses on their declarations *a year ago*. The presentation of direct testimony through declarations or affidavits, subject *to* live cross-examination—as here with Messrs. Basil, DiMaggio, Magliato, and Choy—is commonplace, and, in many cases, necessary. *See Castillo v. Case Farms of Ohio, Inc.*, 96 F. Supp. 2d 578, 587 (W.D. Tex. 1999) (allowing "direct testimony by means of designated deposition excerpts and affidavits, [where witnesses] were then made available for in-person cross-examination . . . the ends of justice, at times, require a combination of live and written testimony."); *In re Gergely*, 110 F.3d 1448, 1452 (9th Cir.1997) ("Requiring evidence to be presented by declaration is . . . accepted and encouraged" in some circumstances). Indeed, the presentation of direct testimony by declaration is *required practice in* many federal courts.[2]

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[2] *See, e.g., Kuntz v. Sea Eagle Diving Adventures Corp.*, 199 F.R.D. 665, 667 (D. Hawaii 1999) (approving district's Declarations Procedure because the "accuracy of each witness statement is assured by the declarant's review and signing of the statement on penalty of perjury. The Declarations Procedure also permits oral cross-examination and oral redirect examination") (emphasis added); *Saverson v. Levitt*, 162 F.R.D. 407, 410 (D.D.C. 1995) (*"[r]equiring the parties to submit their direct testimony in writing* in lieu of the usual question-and-answer form *is* sanctioned under the inherent powers of the Court, the Federal Rules of Civil Procedure and the Federal Rules of Evidence") (emphasis added); *Nihon Keizai Shimbun, Inc. v. Comline Bus.Data, Inc.*, No. 98 Civ. 641 (DLC), 1998 WL 274285, *1 (S.D.N.Y. May 27, 1998) ("Pursuant to this Court's rules for non jury trials, *the direct testimony of all trial witnesses*

The jury is entitled to the benefit of these witnesses' direct testimony. MercExchange's request to present excerpts of cross-examination to the jury without the context of the direct testimony contained in the witnesses' declaration defies logic and the rules of evidence. Much, if not all, of MercExchange's cross-examination related to statements made by Messrs. Basil. DiMaggio, Magliato, and Choy in their declarations. Playing disconnected portions of MercExchange's cross-examination without providing the jury with the declaration that is the subject of that questioning will be needlessly confusing.

Admission of cross-examination without the witnesses' direct testimony is clearly erroneous. Defendants respectfully appeal Judge Bradberry's order excluding the direct testimony of Messrs. Basil. DiMaggio, Magliato, and Choy contained in their declarations and request an order confirming the admissibility of the declarations, or, at a minimum, permitting the testimony contained therein to be read to the jury.

III. APPEAL FROM RULING EXCLUDING DEFENDANTS' TRIAL EXHIBIT NO. 122—A PRIOR ART NEWSGROUP POSTING ON THE BIDBROKER SYSTEM AUTHENTICATED BY MR. CHOY HENG-WAH—WHICH JUDGE FRIEDMAN RULED RAISED A TRIABLE ISSUE OF FACT.

Defendants respectfully request the Court overrule Judge Bradberry's ruling excluding defendants' trial exhibit no. 122, which is the Choy Heng-Wah Newsgroup posting on the BidBroker software. Mr. Choy Heng-Wah was fully and fairly cross-examined on the BidBroker software described in his posting and although MercExchange argued that the

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was presented by affidavit, and only those witnesses whom the parties wished to cross-examine—a total of three individuals for both parties combined—actually appeared and were questioned at trial") (emphasis added).

posting was not a "publication." Judge Friedman ruled that the question raised a triable issue of fact. At the pretrial conference. MereExchange argued that the posting was only relevant to the '051 patent: however, Mr. Choy never reviewed the '051 patent. and instead. testified and was fully cross-examined concerning his prior art disclosure concerning the BidBroker software *without reference to any patent.*

Mr. Choy's BidBroker software is highly relevant and material to the triable issues here. For example, Mr. Choy's posting discloses many of the concepts underlying the '265 patent and represents one of many of the prior art references showing the state of the art at the time Mr. Woolston allegedly developed his invention. Such references are clearly relevant and admissible under any obviousness analysis for the '265 patent under 35 U.S.C. § 103(a), which is at the heart of the defendants' defenses. *See. e.g., Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966) (emphasis added) (stating that "Under § 103, *the scope and content of the prior art are to be determined;* differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or nonobviousness of the subject matter is determined.") It is thus clear error to exclude the Choy BidBroker software posting from the scope and content of the prior art. Judge Friedman has already ruled that the Choy posting raised a triable issue of fact concerning its teachings, and the jury must consider those teachings as part of the scope and content of the prior art to Mr. Woolston's patents.

IV. Appeal From Ruling Excluding Defendants' Trial Exhibits Nos. 26 and 47-49—Prior Art Articles Concerning the Acorn Network.

Defendants respectfully request the Court overrule Judge Bradberry's ruling excluding defendants' trial exhibits nos. 26 and 47-49, which are prior art articles describing the prior art "ACORN" network. These exact same articles were later

allowed into evidence (defendants' exhibits 414-416), and thus, defendants request a definitive ruling that such exhibits are admissible. These articles are important to establishing the invalidity of the patents-in-suit. For example, trial exhibit 26, an article titled *"From Army Knives to Gold coins. Collectors Attend 'On-Line Auctions."* was *cited by an examiner in the Patent and Trademark Office* as showing most, if not all, of the aspects of Mr. Woolston's alleged inventions. These exhibits also demonstrate the scope and content of the prior art which Defendants are required to establish in order to prove obviousness. Finally, the exhibits serve as corroborating evidence of the prior art activities of Messrs. Blankley and Mintz in the 1980's. As a result, defendants' trial exhibits 26 and 47-49 are highly relevant and should be admitted.

V. APPEAL FROM RULING ON MOTIONS IN LIMINE NO. 9 (DKT. NOS. 326, 327, AND 386) AND NO. 15 (DKT. NOS. 342 AND 343) ALLOWING MERCEXCHANGE TO ADD ENTIRELY NEW INFRINGEMENT THEORIES AND PARTIES IN *MARCH 2003*.

At the pre-trial conference, Judge Bradberry ruled on two motions in limine filed by the defendants regarding new infringement theories brought against new parties only about a month before trial. First, the Court ruled that MercExchange could rely on evidence of alleged "direct" infringers even though MercExchange steadfastly refused to identify the alleged "direct" infringers until March 2003. Second, the Court allowed MercExchange to accuse the defendants of direct infringement through the operation of PayPal, even though MercExchange did not assert this theory until March 2003. The Court should reverse these rulings.

A. The Eight New Alleged "Direct" Infringers (Motion in Limine No. 9).

As argued in Motion in Limine No. 9 (Dkt. Nos. 326, 327, and 386), MercExchange waited until March 2003—*a full eight months after discovery closed and only a month before trial*—to accuse eBay and Half.com of infringing the patents-in-suit by contributing to and/or inducing infringement by at least *eight new third parties*.[3] The new third party infringers were known to MercExchange months ago and MercExchange apparently intended to rely on them to show infringement. Nevertheless, MercExchange inexcusably chose not to disclose them to the defendants.

MercExchanges actions have severely prejudiced the defendants. In order to prevail on its new theory of liability, MercExchange must first establish the *direct* infringement of these previously unidentified third-parties which will result in a mini-trial on each one and could extend the trial for weeks. By deliberately concealing their identities until eight months after the close of discovery and only a month before trial, MercExchange has deprived eBay and Half.com of the opportunity to take any discovery on the alleged direct infringement and properly prepare its defense. In order to prevent the prejudice that will result because the defendants were not given the opportunity to take discovery on the alleged direct infringement of at least eight third parties whose identities were deliberately withheld from the defendants the Court should reverse Judge Bradberry's ruling and preclude MercExchange from offering any evidence on the alleged "direct"

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[3] Essentially, MercExchange asserts that eBay and Half.com induce third parties to infringe the '176 patent by allowing those parties to use "software search agents" to retrieve data from eBay and Half.com's database. In addition, MercExchange asserts that eBay is working in concert with eTopps to infringe the '265 patent.

infringement by (1) Yahoo! (2) BestBookBuys, (3) BookFinder, (4) BottomDollar.com, (5) PriceScan, (6) PriceGrabber.com, (7) Best Web Buys, and (8) eTopps.

B. PayPal (Motion in Limine No. 15).

As argued in Motion in Limine No. 15 (Dkt. Nos. 342 and 343), MercExchange also waited far too long to contend that eBay infringes the patents-in-suit through the operation of PayPal. PayPal was a completely independent company for a majority of this case, but was well known to MercExchange long before discovery closed. Until very late in the case, however, MercExchange never, in its interrogatory responses or expert reports, accused eBay of infringement through PayPal. Moreover, MercExchange never sought discovery relating to PayPal, through a subpoena or otherwise, until very late in the case. MercExchange had the opportunity to develop its case against PayPal—just as it did with respect to BillPoint—but consciously chose not to do so. Even after PayPal was acquired by eBay in July, MercExchange insisted that discovery remain closed—arguing that discovery was "in the deep freeze.—(September 19, 2002 Hearing Tr. 19:7-20:5).

Despite the opportunity to develop - and disclose - an infringement theory based on PayPal, MercExchange waited until March 2003 to inject PayPal into this case, through a deposition that was *supposed to be about Billpoint*. By doing so, MercExchange deprived the defendants of the opportunity to conduct discovery of its own and properly prepare a defense. Accordingly, the Court should reverse Judge Bradberry's ruling and exclude any evidence regarding PayPal.

VI. APPEAL FROM RULING ON MOTION IN LIMINE NO. 12 (DKR. NOS. 335, 336 AND 389) EXCUSING AN ADMITTED FAILURE OF PROOF ON DAMAGES AND ALLOWING MERCEXCHANGE TO PROVE DAMAGES THROUGH IRRELEVANT "PROXY" EVIDENCE OF NON-INFRINGING ACTIVITIES.

In motion in limine no. 12 (Dkt. Nos. 335, 336 and 389), eBay moved to preclude MercExchange from introducing at trial *any evidence* of damages for eBay's alleged indirect infringement of the '176 patent. MereExchange's damages *theory* for eBay's alleged infringement of the '176 patent is *premised solely on international sales* conducted by users of eBay's website. However, MercExchange has not alleged, much less identified any evidence of, infringement based on such international sales. MercExchange cannot, therefore, support its damages theory with any predicate proof of infringement, as a matter of law.

Conversely, MercExchange's lone infringement theory against eBay on the '176 patent is an *indirect* infringement claim based on eBay's alleged inducement of or contribution to the alleged direct infringement of BidXS, a California company which does not conduct international transactions, and a set of new direct infringers, for whom MercExchange has failed to present any evidence of direct infringement, as indicated above in section V.A. MercExchange has inexplicably continued to pursue this *liability claim* without any proof of such direct infringement of domestic transactions, and MercExchange's damages theory is based *only on international sales* is entirely unrelated to the alleged infringement involving such domestic transactions. There is no nexus between MereExchange's liability allegations involving BidXS, on the one hand and *its* purported international sales-based damages, on the other.

At the pre-trial conference, *MercExchange admitted that it has no "damages" evidence relating to eBay's alleged indir-*

ect infringement of the '176 patent based on domestic transactions. The jury should not, therefore, be burdened with a presentation at trial of evidence of allegedly infringing conduct for which there is no evidence of damages, nor should the jury be asked to consider such irrelevant, misleading and confusing issues. While MercExchange conceded the failure of proof on its damages theory, Judge Bradberry permitted MercExchange, at MercExchange's request, to introduce "evidence" of "damages" as "proxy" evidence of damages under its new theory of *indirect* infringement based on an entirely set of new direct infringers, as indicated above. In addition, MercExchange improperly contended that it would be entitled to an injunction on *domestic* transactions, because its damages are difficult to calculate or would somehow not make MercExchange whole. Neither MercExchange nor its experts have ever raised any contention, let alone evidence, that its damages cannot be calculated or that MercExchange would not be adequately compensated by damages alone. As a result, MercExchange should be precluded from presenting any infringement or damages theory against eBay on the '176 patent, and it was clear error for Judge Bradberry to deny eBay's motion.

VII. Appeal From Ruling Excluding Defendants' Trial Exhibit Nos. 300, 462, and 465, Which Are Critical to Fairly Cross-Examine the ReturnBuy "Confession."

As the Court is already aware, defendants have objected to, and appealed from, Judge Bradberry's ruling that MercExchange may offer the post-discovery "confession" of Mr. Walt Shill, former CEO of bankrupt ReturnBuy, which is now, for all practical purposes, defunct. (Appeal served on Saturday, April 12, 2003, and filed on April 14, 2003.) Unless the Court grants eBay's appeal and grants eBay's Motion in Limine No. 1 (Dkt. Nos. 300, 301, 378), defendants must also respectfully appeal from Judge Bradberry's decision to

exclude the defendants' proposed Trial Exhibit Nos. 300, 462, and 465. The evidence is critical for the jury to evaluate the credibility of the ReturnBuy "confession" and license.

Exhibit 465 is the order from the United States Bankruptcy Court of the Eastern District of Virginia, showing that the ReturnBuy "license agreement" was in fact abandoned in bankruptcy by the purchaser of ReturnBuy's other assets, Jabil Circuit, which now operates the former ReturnBuy site. Thus, Exhibit 465 shows that MercExchange likely will never receive a *penny* from the RetumBuy "license," which was manufactured solely for this case. Moreover, Exhibit 465 shows that, as a matter of law, the Court has held that Jabil Circuit is *not* bound by the ReturnBuy "confessions" or license, even though it is now operating the former Return-Buy site. Thus, if the Court allows the ReturnBuy "confes-sion" and license into evidence over defendants' objections and appeal, it should allow the jury to consider Exhibit 465 as well. No basis exists to exclude the evidence, and the Court's order excluding it, while allowing MercExchange to intro duce the "confession" and "license," will severely prejudice defendants.

Similarly, defendants must respectfully appeal from Judge Bradberry's decision to exclude Defendants' Trial Exhibit Nos. 300 and 462, Judge Friedman's February 26, 2003 orders (Dkt. Nos. 277 and 278), which indicate that: "*Nothing in this Order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half com, and MercExchange in this case.*" First, MercExchange has waived any objection to the admission of this exhibit because MercExchange listed the exhibit on its own trial exhibit list. Second, exhibits 300 and 462 are also essential for the jury to consider when it evaluates the ReturnBuy "confession" and now-abandoned "license." Again, if the Court permits MercExchange to tout the Return-Buy "confession" and "license," no evidentiary basis exists to

exclude exhibits 300 and 462. MercExchange cannot introduce only the RetumBuy "confession"/license evidence it likes, and exclude all of the evidence that defendants require to cross-examine it. Consequently, although *all* of the RetumBuy evidence should be excluded, as set forth in eBay's Motion in Limine No. 1 (Dkt. Nos. 300, 301, 378), if the Court elects to introduce *any* of it. the Court should also allow the jury to consider Defendants' Trial Exhibits 300. 462. and 465.

VIII. RULING EXCLUDING MR. WOOLSTON'S ADMISSIONS TO THE WALL STREET JOURNAL (DEIS. TRIAL EX. 35).

In 1999. while Mr. Woolston's sights were fixed on Priceline.Com and its Name-YourOwn-Price system, Mr. Woolston approached the media. including the Wall Street Journal, to announce his challenge to the Priceline.Com patent. The '265 patent had *already issued,* but Mr. Woolston was not interested in eBay. The Wall Street Journal quoted Mr. Woolston as stating that eBay did *not* practice the technology in his applications:

> "Mr. Woolston said he didn't believe online-auction sites like the popular eBay Inc., San Jose, Calif., infringed on his patent technologically."

(Def. Trial Ex. 35 (Scott Thurm, *Inventor Disputes Key Auction Patent Held by Priceline,* THE WALL STREET JOURNAL (Jan. 13, 1999) at B2)). MercExchange has complained about the language of the Wall Street Journal quote, but announced to the Court that "the statement as incorrectly quoted was believed true at the tirne it was made." (Dkt. No. 162; Merc. Reply Markman Br. at 30 (July 23, 2002) (emphasis added)).

At trial. MereExchange intends to argue that eBay is a "willful infringer" of the '265 patent, notwithstanding Mr. Woolston's statements to the Wall Street Journal. The article is an admission by a party-opponent and it is clearly

admissible also to respond to MercExchange's willful infringement allegations. Nonetheless, while Judge Bradberry allowed numerous hearsay statements of third-parties regarding their opinions of the Woolston patent, Judge Bradberry excluded Mr. Woolston's admissions to the Wall Street Journal. The Wall Street Journal may be the most respected, reliable business publication in the Nation. The article is a critical piece of evidence in this case, is clearly admissible, and excluding it was clearly erroneous.

IX. ORDER DENYING MIL NO. 3 (DKT. NOS. 304, 305, 380) IN PART AND ALLOWING POST-DISCOVERY OPINION TESTIMONY OF EBAY'S COMPETITOR, AUTOTRADER, AND THE AUTOTRADER LICENSE.

Defendants respectfully request the Court overrule the decision to admit the AutoTrader license and the proposed, undisclosed opinions of eBay's competitor, AutoTrader, at trial. As set forth in defendants' briefs (Dkt. Nos. 304, 305, 380), *both* of MercExchange's experts opined *as* recently *as February 28, 2003* that the unfavorable AutoTrader license agreement (which MercExchange had withheld from production for over a month) was *irrelevant*. On April 4, 2003, in yet *another attempt* to change his mind at the last minute, Mr. Evans served a new expert declaration, attempting to opine that the AutoTrader agreement was significant. Mr. Evans' April 4, 2003 declaration is an entirely new theory, and MercExchange has no excuse for waiting to offer it until then. MercExchange served Mr. Evans' new declaration *after* his expert deposition, and *four months after* MercExchange and AutoTrader entered into the agreement. As set forth in defendants' briefs, the AutoTrader evidence is inadmissible under the Rules of Evidence, and in view of MercExchange's delays and belated attempt to change its damages theories yet again, should be excluded. Moreover, defendants' respectfully submit that permitting an AutoTrader witness to take the stand and offer opinions about the Woolston patent *is* clearly

erroneous—the AutoTrader witness did not submit any report entitling him to provide opinion testimony, and as set forth in eBay's underlying motion, eBay has been denied any opportunity to take discovery regarding the AutoTrader negotiation and agreement.

The evidence should be excluded; but if it is not, the Court should order MercExchange to produce all documents sent to, or received from AutoTrader, and should order MercExchange to present the proposed AutoTrader witness, and the MercExchange representatives who negotiated with him, for deposition no later than the end of the week.

X. APPEAL FROM RULING DENYING MOTION IN LIMINE NO. 4 (DKT. 306, 307 AND 381) AND ALLOWING ADMISSION OF IRRELEVANT, LITIGATION-INSPIRED SETTLEMENT AGREEMENT WITH GOTO.COM.

Defendants also respectfully appeal Judge Bradberry's ruling admitting MercExchange's settlement of its litigation with GoTo.com. Contrary to MercExchange's contention, the agreement has no bearing on the "commercial success and nonobviousness of the '176 Patent. The GoTo agreement merely illustrates that MercExchange with its "litigious nature," was able to capitalize on a unique situation—GoTo had access to escrow accounts set up for such contingencies. had discontinued its allegedly infringing shopping business. and thus was able to pay the settlement at "zero cost." Indeed GoTo's corporate designee explained its motivation in signing the agreement: "we wanted basically never to deal with MercExchange again." *(See* McFarland Decl. (Dkt. No. 307), Ex. 1 (Ryan TR 10:11-12.)). Plaintiff's expert. Mr. Troxel. similarly testified that it was just a "settlement for past infringement and "what GoTo.com was willing to pay for past infringement to get out of the case." Troxel TR 39:8-16, 49:5-7. MercExchange's strategy is not new; the courts have

repeatedly rejected attempts to rely on such litigation-inspired agreements.[4]

Moreover, the agreement's inclusion of GoTo's inadmissible lay, hearsay opinion acknowledging the "validity and enforceability of the '176 patent" is misleading and preju dicial. (*See* Merc. Tr. Ex. 830, P12). As explained in defendants' Motion in Limine No. 4 (Dkt. Nos. 306, 307, 381), the opinion—like the alleged ReturnBuy "confession"—came at no cost to GoTo who was being released from any liability, had its settlement payment covered by an earlier funded contingency escrow, and was getting out of the business. The "acknowledgement" is gratuitous hearsay opinion, and enormously prejudicial. Accordingly, defendants respectfully appeal Judge Bradberry's admission of the irrelevant agreement and submit that, even if the Court does not grant the appeal on this issue, the Court redact the extraordinarily

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[4] While "it is not unusual to see astute businessmen capitalize on [the issuance of a patent] by erecting a temporarily successful licensing program," such licensing "programs are not infallible guides to patentability." *EWP Corp. v. Reliance Universal Inc.*, 755 F.2d 898, 907-08 (Fed. Cir. 1985) (holding patent invalid under Section 103 despite existence of licensing program). As in the case of the GoTo settlement, when it is "cheaper to take licenses than to defend infringement," a license does not prove that a patent is valid. *See Id.* The GoTo agreement is equally irrelevant to MercExchange's damages claim: "It is a century-old rule that royalties paid to avoid litigation are not a reliable indicator of the value of a patent, and should therefore be disregarded when determining reasonable royalty rates. This is because royalties paid under threat of suit may reflect the licensee's desire to avoid the risk and expense of litigation." *Wang Labs., Inc. v. Mitsubishi Elec. Am., Inc.*, 860 F. Supp. 1448, 1452 (C.D. Cal. 1993) (citing *Rude v. Wescott*, 130 U.S. 152, 164 (1889)). *See also Studiengesellschaft Kohle, m.b.H., v. Dart Indus., Inc.*, 862 F.2d 1564, 1572 (Fed. Cir. 1988) (a "royalty, if any, resulting from [settlement] should not be considered evidence of an 'established' royalty and thus a measure of adequate damages here. . . . License fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation.") (internal citation and quotation omitted).

prejudicial hearsay "acknowledgment" regarding the validity and enforceability of the '176 patent.

XI. APPEAL FROM ORDER EXCLUDING DEFENDANTS' EXHIBIT NO. 567, A PATENT LICENSE AGREEMENT BETWEEN EBAY AND NES.

Defendants also respectfully appeal from the Court's decision to exclude evidence of eBay's license with NES, Defendants' Trial Exhibit 567. The Court excluded the NES patent license agreement as irrelevant. However, this agreement is relevant to a number of issues. First, the license is relevant to refuting Plaintiff's damages claim. In determining a reasonable royalty, Plaintiffs experts have solely focused on MercExchange's suspect licenses with companies such as Aden, GoTo.com, and Autolrader *as* "comparable" licenses. Plaintiff has conveniently ignored the comparable eBay/NES license. As a result, Defendants are entitled to submit the eBay/NES license to the jury as evidence of what royalty rates and conditions eBay would have demanded in a patent license agreement.

In addition, as the Court will recall from most of MercExchange's filings in this case, MercExchange will argue to the jury that eBay has "no respect" for patents or intellectual property rights, and a "rank" "willful infringer" of Mr. Woolston's patents. To rebut MercExchange's inflammatory eBay-is-"rank" theory, eBay is entitled to introduce evidence of its license agreements with others, including the NES license agreement, Trial Exhibit 567. Allowing MercExchange to present its one-sided argument, without a fair opportunity for eBay to present evidence in rebuttal, would severely prejudice eBay in the eyes of the jury, and, eBay believes, would be clearly erroneous.

XII. APPEAL FROM RULING ALLOWING MERCEXCHANGE TO GIVE TO THE JURY ALMOST *70* IRRELEVANT, CONFUSING, AND MISLEADING PATENT APPLICATIONS OF THE DEFENDANTS.

Defendants eBay and Half.com respectfully request that this Court reverse the decision to allow MercExchange to give to the jury, upon a showing of relevance, almost *70* of the defendants' confidential, pending patent applications.[5] There is no reason to allow MercExchange to waste time attempting to establish the non-existent relevance of the patent applications. As at least four of the named inventors have testified during their deposition the defendants' patent applications *do not necessarily reflect the defendants' actual systems*. The jury would thus be placed in the untenable situation of having to guess as to those features that are implemented in the accused systems and those that have not been implemented. Accordingly, the patent applications lack any probative value to the operation of the defendants' web sites.[6]

Moreover, even if the patent applications had some limited probative value, the admission of the applications is unnecessary given the fact that MercExchange has received, during discovery, detailed engineering documents technical

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[5] The exhibits at issue are MercExchange proposed trial exhibits 105, 107, 111-115, 190-194, 218, 274, 275, 295, 296, 297, 433, 434, 554—615, and 817-819. Objections to Exhibits 338-342 were reserved for the trial court.

[6] Contrary to MercExchange's arguments, the patent applications are not probative of notice, either. The mere fact that the PTO cited the Woolston patents during the prosecution of the defendants' own applications does not mean that the defendants' actual systems, which are not necessarily reflected in the patent applications, infringe the Woolston system. Similarly, the fact that the PTO cited the Woolston patent says nothing about the validity of the Woolston patents. It only means that the Woolston patents were handy to the various examiners.

specifications, source code and detailed deposition testimony clearly and completely detailing how the defendants' systems operate. MercExchange should rely on this *direct* evidence, rather than *indirect* evidence found in lengthy and confusing patent applications, to attempt to prove its case.

Not only does the evidence lack any probative value, but admission of the numerous patent applications will overwhelm, confuse, and possibly mislead the jury and will be a tremendous waste of time at trial. Requiring the jury to review almost *70* patent applications, amounting to thousands of pages of documents, then determine whether the inventions described in the patent applications were ever implemented in the defendants' systems, and, finally, whether those implemented features infringe the patents-in-suit would confuse the jury and waste time.

In similar circumstances, in considering whether a district court erred by excluding a defendant's patent the Federal Circuit stated that admission of the evidence would have injected *frolics* and *detours* and would have required introduction of counter-evidence all likely to create side issues that would have unduly distracted the jury from the main issues." *Glarus* v. *H.H. Robertson Co.*, 797 F.2d 1564, 1572-73 (Fed. Cir. 1986) (emphasis added). The risk that defendants' patent documents—without time-consuming explanation—will confuse the issues and mislead the jury is manifest, and substantially outweighs whatever limited probative value may be attributed to these documents.

XIII. Appeal From Ruling Denying Motion in Limine No. 11 (Dkt Nos. 330, 331, 388) and Allowing Alfred Weaver to Offer an Opinion About Legal "Transfer of Ownership."

Defendants also respectfully appeal Judge Bradberry's ruling denying defendants' motion in limine No. 11 (Dkt. Nos. 330, 331, 388). The parties, and even Dr. Weaver, agree

that he is not qualified to offer opinions about *the law*, and opinions about what is required to *transfer ownership* under the law. Nonetheless, Dr. Weaver intends to opine that ownership is *legally transferred* by eBay's system, an opinion that is incorrect as a matter of law, and undeniably *outside* Dr. Weaver's area of expertise. Dr. Weaver admitted that his opinion is based on a legal interpretation under contract law, upon which he opines that a buyer of online goods has a "legally cognizable right to a good" based on the terms and conditions of a user agreement. Such an opinion is clearly outside of Dr. Weaver's experience and purported expertise as a computer science professor. Dr. Weaver may testify about whether he believes that eBay has a "data record" in its system. He may testify about whether he believes that eBay "modifies" the "data record." However, *Daubert* prohibits Dr. Weaver from testifying that the "modification" of the "data record" *transfers legal ownership*, because he has *absolutely no* basis for, and no expertise to provide, this erroneous *legal* opinion.

The Supreme Court's *Daubert* opinion is very clear, and permitting Dr. Weaver to offer the opinion that eBay *transfers legal ownership* based on contract interpretation would indisputably violate it. Consequently, defendants respectfully submit that Judge Bradberry's decision is clearly erroneous, and respectfully appeal from and request reversal of, his ruling on defendants' motion in limine No. 11 (Dkt. Nos. 330, 331, 388).

XIV. Appeal From Ruling Excluding Defendants' Exhibits Demonstrating the Value That MercExchange Would Have Assigned to the Patents in Suit in a "Hypothetical Negotiation."

Defendants respectfully appeal Judge Bradberry's ruling excluding defendants' exhibits 362, 374, 375, 403, 406, 564, and 565 as irrelevant. These exhibits relate to MercExchange's dispute with two of its co-founders and are

directly relevant to MercExchange's hypothetical-negotiation damages theory. The now-excluded exhibits relate to MercExchange's buy-out of two of its co-founders, Jackson Matney and Jeffrey Bartlam, and document MercExchange's negotiation and ultimate assignment of a value to the present suit against defendants. This evidence is undeniably relevant to the value the parties would have assigned to the patents in the "hypothetical negotiation" upon which MercExchange bases its damages case.

XV. Appeal From Ruling on Motion in Limine No. 13 (Dkt. 338 and 339) Allowing "Expert" Testimony of Dr. Troxel, Which is Solely Limited to How to Perform Simple Multiplication.

In motion in limine no. 13 (Dkt. 338 and 339), the defendants sought to preclude MercExchange from offering any opinion from one of its professed damages "experts," Richard Troxel. The basis for the motion was that the only testimony provided by Dr. Troxel was not helpful to the jury because it related to how to perform a simple mathematical process, namely multiplication. According to Dr. Troxel's own testimony, he is not offering any opinions on the appropriate royalty rate in this case, or the appropriate royalty base. Instead, Dr. Troxel accepts the royalty rate provided to him by his colleague, Larry Evans. He then applies that rate to a royalty base supplied to him by the lawyers at Hunton & Williams. All Dr. Troxel does is perform the trivial multiplication.

Dr. Troxel's proffered testimony is contrary to Fed. R. Evid. Rule 702 and the Supreme Court's holding in *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993). Dr. Troxel's purported "expertise" in this case consists solely of his ability to perform basic mathematical calculations for Dr. Evans. The reality here is that MercExchange has not offered Dr. Troxel as a witness to assist the jury in understanding the "reasonable royalty" evidence. Rather, MercExchange prof-

fers Dr. Troxel in order to buttress the testimony of its other experts. In his two individual reports, Dr. Troxel repeatedly volunteers praise for Evans' "reasonable royalty" analysis. Moreover, in their joint report, Drs. Evans and Troxel express their approval for the analysis of MercExchange's technical experts. Of course, Rules 404(a)(3) and 608(a) prohibit this type of "vouching" for another witness's opinions. Because he adds nothing substantive or admissible to this case, Dr. Troxel should not be permitted to testify at trial.

XVI. CONCLUSION.

For the foregoing reasons, and for the reasons set forth in defendants' previous briefs and at oral argument, defendants respectfully appeal the decisions discussed herein.

Dated: April 15, 2003

Respectfully submitted,

By: _____

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UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

[Filed Apr. 17, 2003]

No. 2:01CV736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

eBAY, INC.,et al.,

Defendants.

ORDER

This matter is before the Court for resolution of more than twenty outstanding motions. The motions were addressed at the beginning of the final pretrial conference and are set forth in the order in which they were addressed. For ease of reference, each of the motions will be referred to by the document number assigned them in the file.

Plaintiff's motion to compel and to resume depositions of Pierre Omidyar and John Monahan, Jr., (Doc. 243), filed in the fall of 2002, has been resolved, and the issues presented therein are MOOT.

Plaintiff's proposed scheduling order, (Doc. 248), filed January 10, 2003, is MOOT.

Plaintiff's motion for entry of an order precluding eBay and Half.com from presenting claims defenses or evidence at trial that rely, in whole or in part, on the source codes used for the production of each version of their website, (Doc. 252), is DENIED. Some of the material has been furnished, and the issue becomes what is relevant for trial. To the extent

that defendants have not furnished information, no new source code evidence may be relied upon by defendants for any reason at trial.

EBay's motion to strike the declarations of Brian M. Buroker, Alfred C. Weaver, and Jonathan W. Palmer, (Doc. 253), and any reference to the ReturnBuy "confession" is DENIED. The declarations, offered in support of plaintiff's motion for partial summary judgment, are not the type of exhibits that would normally and ordinarily be given to a jury and do not constitute "evidence."

Plaintiff's motion to enforce a protective order and to strike the designations of Jonathan Simon and Michael Cornell, only recently revealed, as nontestifying experts, and further to bar defendants from relying upon their opinions and findings as may be presented through defendants' other factual and expert witnesses at trial, (Doc. 296), is DENIED. Simon and Cornell will not testify at trial. However, their assistance to defendants may take the form of advice, relied upon by defendants and their experts, and may be presented through testimony at trial. So long as their help does not result in new and unexpected opinions, there is no basis upon which to compromise their assistance to the defense. Each side is entitled to retain experts to assist them in preparation for trial. Federal Rule of Civil Procedure 26(b)(4)(B) provides the circumstances under which discovery of such experts may be compelled, but the circumstances do not exist in this case, and plaintiff is not entitled to the relief.

Plaintiff's motion to exclude from testimony eBay's expert witnesses, who testified in connection with the '051 Patent, (Doc. 294), is GRANTED, in part, and DENIED, in part. EBAY has presented four expert witnesses in its behalf: Arthur Keller, Michael Shamos, Steven Crocker, and Charles Plott. Plaintiff correctly asserts that none of the witnesses have ever provided a response as contemplated by Federal Rule of Civil Procedure 26(a)(2), in the form of a report with

respect to the '176 and '265 Patents. Their testimony consisted of an attack, ultimately

* * * *

Pro hac vice applications for the admission of three California attorneys on defendants' behalf, (Docs. 367, 368, 369), have all been granted, and therefore, the issue is MOOT.

Defendants' motion for an order excluding any reference to or reliance upon the ReturnBuy "confession" and arrangements with plaintiff, (Doc. 300), is DENIED. The arguments of each counsel address the merits of the evidence, not a matter of admissibility, but definitely a matter of weight and credibility.

Defendants' motion for an order excluding any reliance by plaintiff on licensing agreements with Aden Enterprise and subsidiaries as proof of "damages," (Doc. 302), is DENIED. The pleadings reflect that the parties are talking about evidence, the weight and credibility of which must be weighed by the trier of fact. There is no issue of admissibility.

Defendants' motion for an order excluding plaintiff from referring to or relying upon statements and comments by representatives of Auto Trader, (Doc. 304), is DENIED. The Court finds that the press release is, in and of itself, inadmissible. However, an Auto Trader representative may be offered by plaintiff to address an issue involving damages. The defense has the absolute right to cross-examine such witnesses about their relationship with plaintiff, to undermine and impeach their testimony, and to place the credibility of the testimony in issue. The matter will be resolved by the triers of fact.

Defendants' motion for an order excluding any reference to or reliance upon the settlement agreement between plaintiff and GoTo.com regarding the '176 Patent, (Doc. 306), is DENIED. Plaintiff offers the evidence in connection with dam-

ages, and defendants argue that the testimony cannot support damages. This is a factual dispute to be resolved by the triers of fact.

Defendants' motion to exclude any evidence or testimony regarding eBay's offer to purchase plaintiff's patent portfolio, (Doc. 308), is GRANTED. The Court has been advised that the parties to the meeting, including counsel for both sides, agreed that matters which were raised in the course of the meeting would be treated confidentially and would not be revealed outside of the meeting. The parties were exploring possibilities, and nothing relevant to the trial developed out of the meeting. Accordingly, it is the Court's judgment that all statements made in the course of the meeting from which this motion flows, shall be excluded. Neither side shall be entitled to rely upon any representations nor to reveal the contents of the discussions.

Defendants' motion to strike plaintiff's effort to expand the '265 Patent, (Doc. 310), is rendered MOOT, the issue having been resolved by Order of the trial court on April 4, 2003.

Defendants' motion to prevent plaintiff from offering a new "entire market value" theory of damages, (Doc. 312), is GRANTED. The assertion comes too late in the pretrial process for defendants to reasonably discover the basis upon which the theory arises or to be prepared to defend against it and it may not be used at trial.

Defendants' motion for an order excluding evidence of a Department of Justice investigation of eBay, (Doc. 314), is GRANTED. The investigation, which was civil in nature and did not result in charges or any adverse consequences to eBay, will improperly prejudice the jury and has no probative value.

* * * *

defendants' systems, (Doc. 322), is DENIED. The attack is on evidence that "might be" and is without a proper context

upon which the Court can determine whether such evidence would be admissible. The trial court will address such issues as they are raised, but this Court is not inclined to enter a blanket order precluding the introduction of such evidence.

Defendants' motion to exclude any reference to or reliance upon evidence regarding alleged '176 Patent infringers, (Doc. 326), is DENIED. The motion addresses evidence which might be offered by plaintiff regarding Yahoo, BestBook-Buys, BookFinder, and other internet sites. Defendants express concern that plaintiff will attempt to use evidence about those sites as a part of its damages in establishing indirect patent infringement. That subject is a matter to be resolved by the trial court as the evidence is offered.

Defendants' motion to exclude Ophir Freider, Ph.D., from offering expert infringement opinions or testimony, (Doc. 328), is DENIED. Perusal of Freider's report reflects a highly professional expert witness and a detailed and sophisticated expert report. The issue is one of weight and credibility, not admissibility.

Defendants' motion to exclude the expert testimony of Dr. Alfred C. Weaver about when ownership of a good transfers, (Doc. 330), is DENIED. The trial court will determine whether Weaver's opinion may be appropriately rendered, but in the context in which the matter is presented, preclusion of testimony will merely usurp the judgment of the trial court, nothing more.

Defendants' motion to preclude the testimony of plaintiff's proposed expert witness, Richard B. Troxel, (Doc. 338), is DENIED. Troxel's qualifications may be examined at trial, and the trial court will determine whether Troxel can testify. However, the motion does not provide evidence which would support entry of a judgment by this Court barring Troxel from appearing on plaintiff's behalf.

The Clerk shall mail a copy of this Order to all counsel of record.

[Illegible]
United States Magistrate Judge

Norfolk, Virginia
April 17, 2003

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01cv736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC., *et al.*,

Defendants.

Norfolk, Virginia
April 22, 2003

PRETRIAL MOTIONS

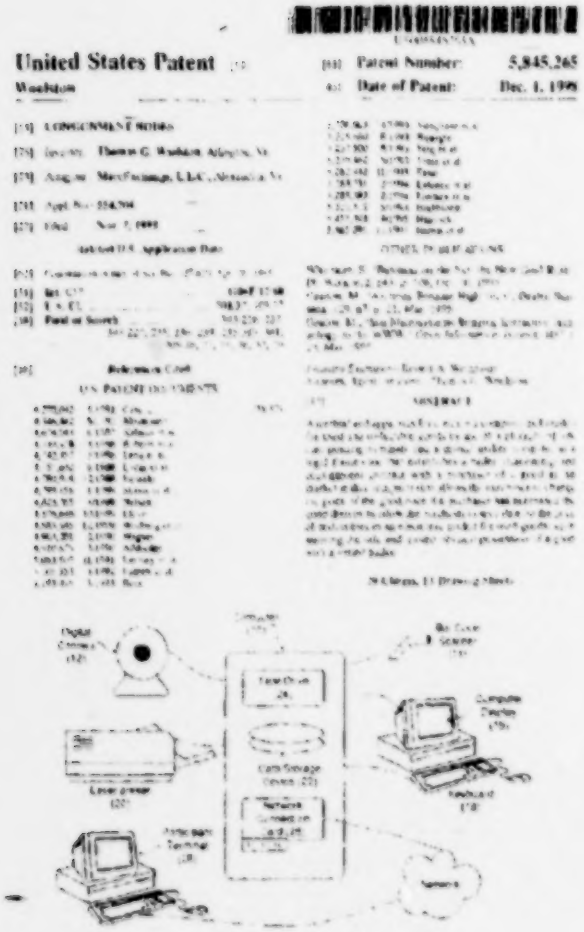
MORNING SESSION

BEFORE: THE HONORABLE JEROME B. FRIEDMAN
United States District Judge

* * * *

[24] I also—well, my law clerk prepared kind of a glossary. And I note that—and again, I have not really looked through the jury instructions very carefully because that's a long way away, and I'll deal with that when I have to. But it appears that in looking through the jury instructions from the plaintiff, that the proposed jury instructions were the ones that were consistent with the Markman opinion weren't as detailed as the ones that the defendants have submitted. The defendants have indicated that they object to the plaintiff's proposed instructions on Markman, arguing that without the court's reasoning behind the claims construction, the jury might be confused.

I have read some of the defendants' propose instructions, and it appears what they have done is they have taken large paragraphs from the Markman opinion discussing the court's analysis behind its claim construction. I just think personally that that's too much for a jury to handle and believe simple instructions on the claims is more appropriate. But what I've done--and I'll hand this to you all. In fact, I'll put it up here right now so that will have it. But these are simply the definitions that the court decided based on the Markman hearing with regard to these two patents. And, again, I'm not sure whether the average person is going to be able to understand what in the world these things say,but I thought I would give each of them one of these so they



United States Patent [19]

Washington

[11] Patent Number: 5,845,265

[45] Date of Patent: Dec. 1, 1998

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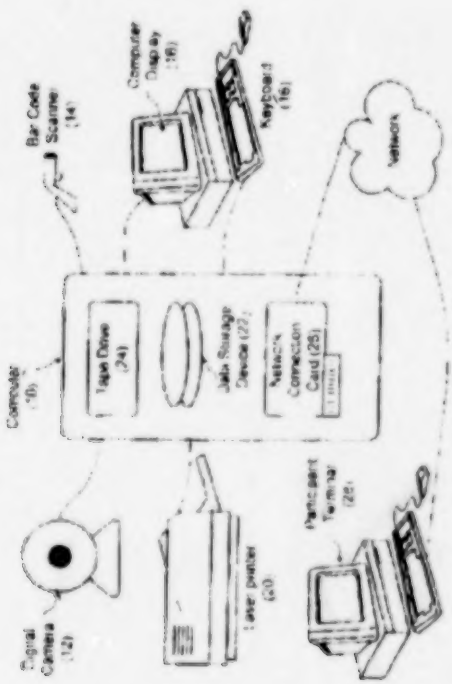
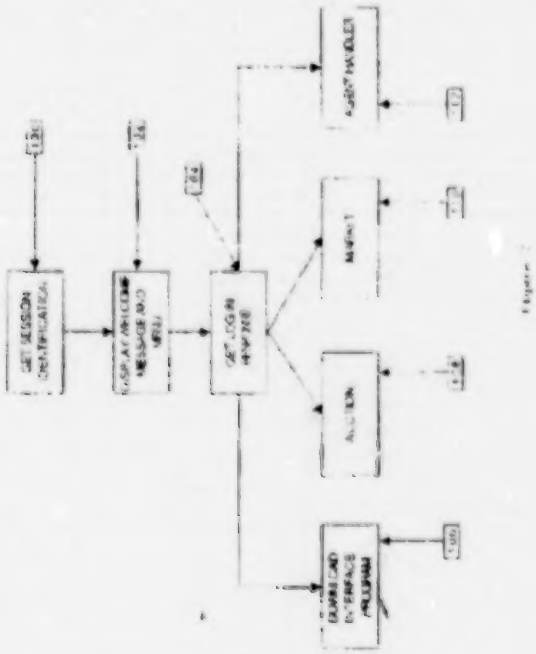

Computer Display (16)
Keyboard (16)
Bar Code Scanner (14)
Network
Computer (10)
Tape Drive (24)
Jaz Storage Device (22)
Network Connection Card (28)
Participant Terminal (26)
Laser printer (20)
Digital Camera (12)

Figure 1



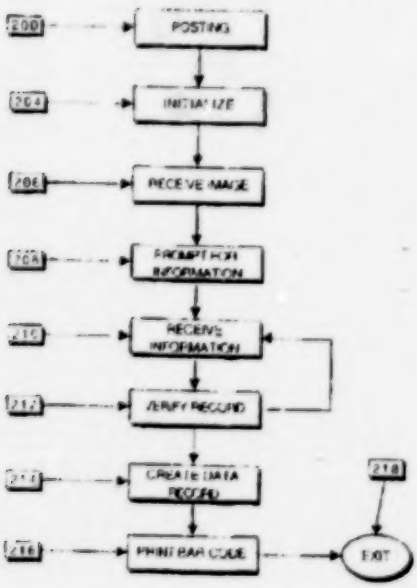
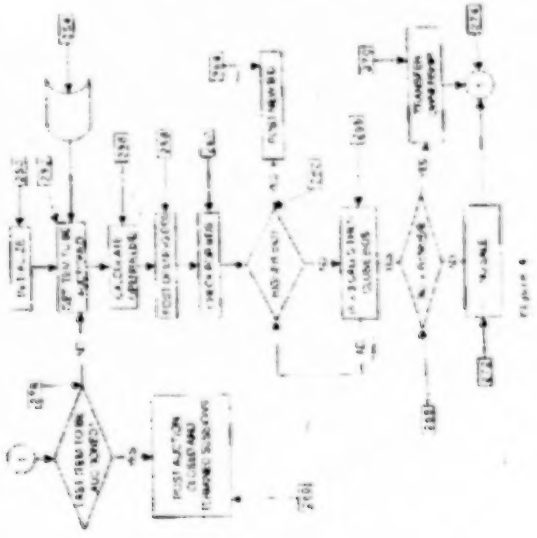

200
POSTING
204
INITIALIZE
206
RECEIVE IMAGE
208
PROMPT FOR INFORMATION
210
RECEIVE INFORMATION
212
VERIFY RECORD
214
CREATE DATA RECORD
216
PRINT BAR CODE
218
EXIT

Figure 3



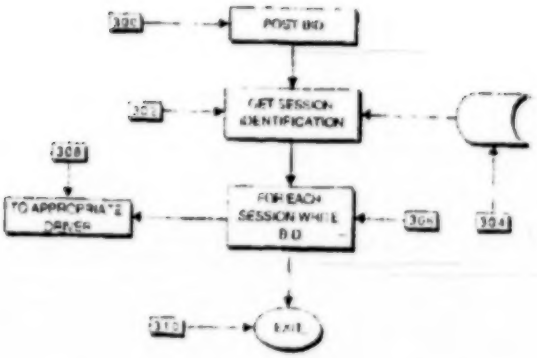

300
POST BID
302
GET SESSION IDENTIFICATION
308
TO APPROPRIATE ORDER
FOR EACH SESSION WHILE DO
306
304
310
EXIT

Figure 3

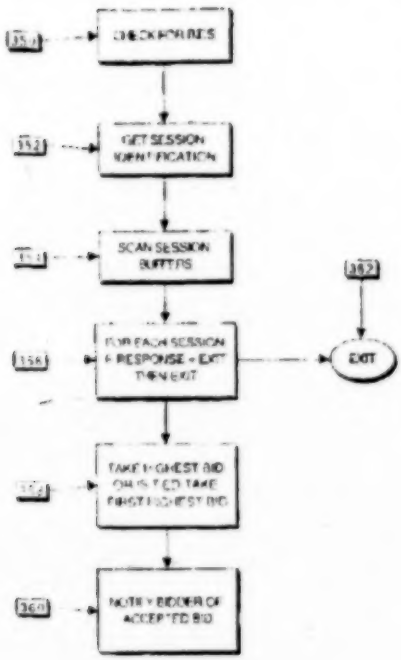

GET SESSION IDENTIFICATION
SCAN SESSION BUFFERS
EXIT
NOTIFY BIDDER OF ACCEPTED BID

Figure 6

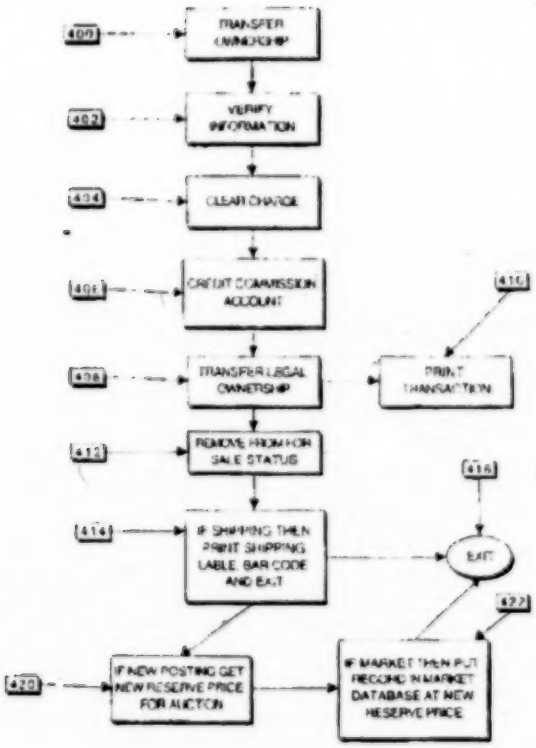
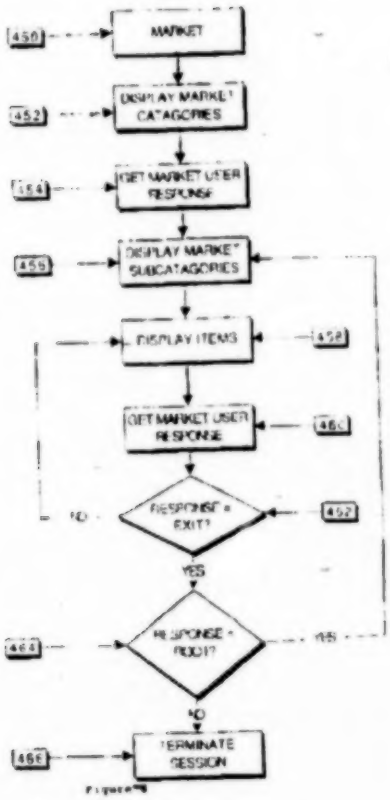

400
TRANSFER OWNERSHIP
402
VERIFY INFORMATION
404
CLEAR CHARGE
406
CREDIT COMMISSION ACCOUNT
410
PRINT TRANSACTION
408
TRANSFER LEGAL OWNERSHIP
412
REMOVE FROM FOR SALE STATUS
416
414
IF SHIPPING THEN PRINT SHIPPING LABLE BAR CODE AND EXIT
EXIT
422
420
IF NEW POSTING GET NEW RESERVE PRICE FOR AUCTION
IF MARKET THEN PUT RECORD IN MARKET DATABASE AT NEW RESERVE PRICE

Figure 7


450
MARKET
452
DISPLAY MARKET CATAGORIES
454
GET MARKET USER RESPONSE
456
DISPLAY MARKET SUBCATAGORIES
458
DISPLAY ITEMS
460
GET MARKET USER RESPONSE
462
RESPONSE = EXIT?
NO
YES
464
RESPONSE = RODI?
YES
NO
466
TERMINATE SESSION

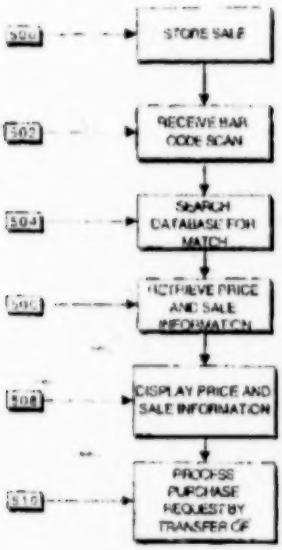

500
STORE SALE
502
RECEIVE BAR CODE SCAN
504
SEARCH DATABASE FOR MATCH
506
RETRIEVE PRICE AND SALE INFORMATION
508
DISPLAY PRICE AND SALE INFORMATION
510
PROCESS PURCHASE REQUEST BY TRANSFER OF

Figure 5

550
DATA PROCESSING
552
DOWNLOAD DATA
554
PLOT SALE DATE/PRICE
556
CALCULATE STATISTICS
558
PRINT RESULTS

Figure 10

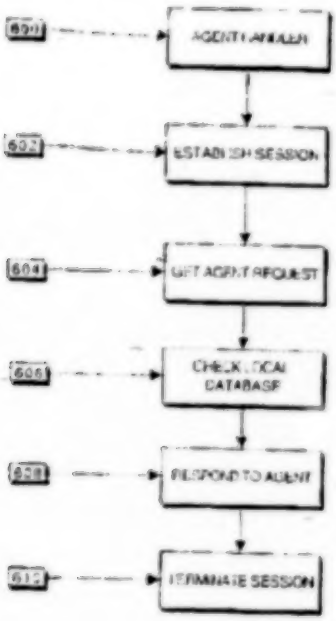
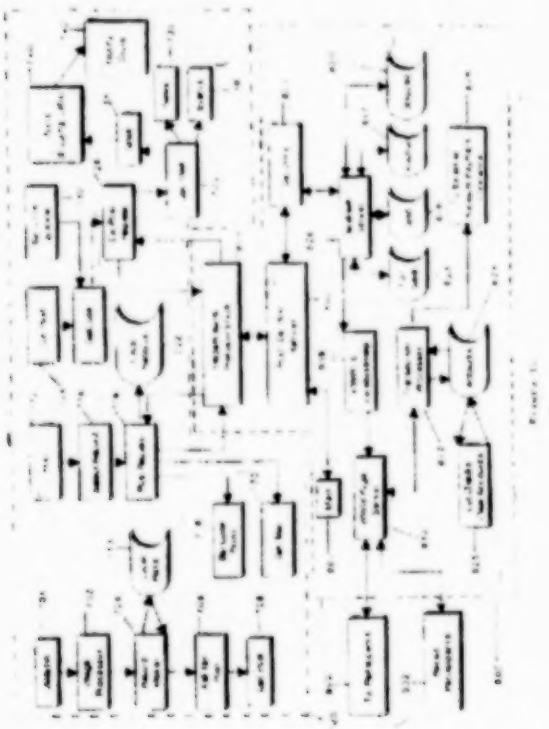
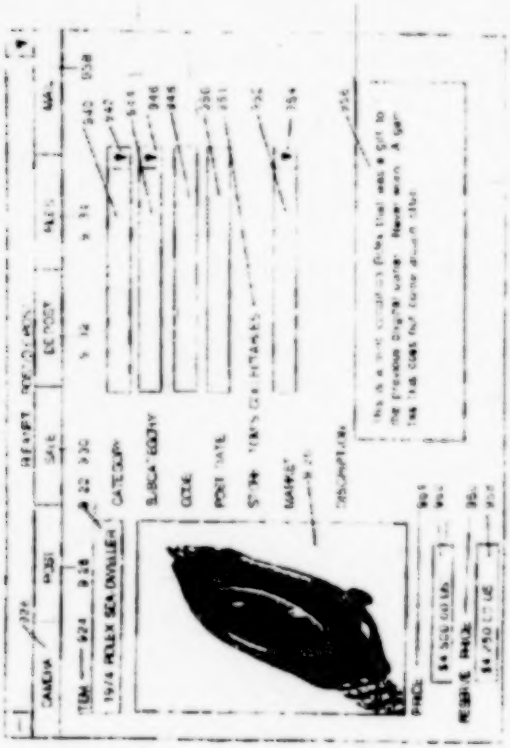

602
604
606
608
612
ESTABLISH SESSION
GET AGENT REQUEST
CHECK LOCAL DATABASE
RESPOND TO AGENT
TERMINATE SESSION

Figure 2A





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CONSIGNMENT NODES

BACKGROUND OF THE INVENTION

This application is a continuation in part of U.S. patent application Ser. No. 08/427,820 filed Apr. 26, 1995, incorporated herein by reference in its entirety. The present invention relates to used and collectible goods offered for sale by an electronic network of consignment stores. More specifically, the present invention may be an electronic "market maker" for collectable and used goods, a means for electronic "presentment" of goods for sale, and an electronic agent to search the network for bard to find goods. In a second embodiment to the present invention, a low cost posting terminal allows the virtual presentment of goods to market and establishes a two tiered market of retail and wholesale sales.

Certain items and used goods have a large following of collectors. These items include baseball cards, dolls, pens, watches, comic books, stamps, coins, and the like. It is well known to establish shops specializing in these items. It is also well-known to establish boards for the sale of used goods. And is known to sell new goods on a special television channel like the Home Shopping Channel.

The prior art does not provide a means to electronically market used goods or provide an avenue to allow participants to speculate on the price of collectable or used goods in an electronic market place. Moreover, the art does not show a way for small to medium size business to use a low cost posting terminal in conjunction with a market maker computer to collectively create a virtual market for used and collectible goods. Thus, to address the short comings of the art the present invention has the following objectives:

SUMMARY OF THE INVENTION

To establish a low cost computer means for a used good and/or consignment stores to establish a "trusted" computerized market for used and collectible goods.

To establish a computer means to administrate and provide inventory tracking to used good and/or consignment stores when the stores make a virtual presentment of a good to a computerized market and the good is sold at the virtual market and/or the good is sold through the store front.

To establish a computer means to double tier a computerized market for goods, where the first tier is a retail price and the second tier is a wholesale or dealer to dealer price and an authorized dealer has pre-approved access to the dealer-to-dealer price and may charge and display the retail price to a local store customer.

To establish a computer means for archiving records of transactions in a computerized market for collectible and used goods and distributing the archive to computer terminals that may then research and analyze valuation and price trends of collectible and used goods in the computerized market.

To establish a computer means for a used good store or consignment store to sell used goods and collectibles electronically and to provide the automatic electronic re-sale of goods purchased.

To establish a market for goods with a dominant electronic "market maker" node to allow collectors to speculate on the collectable goods market.

To provide the excitement of a "live" auction house type atmosphere to remote participants in a electronic auction.

To provide data analysis to the market makers of collectable good or consignment node users on the price, price movements, and quantity of collectable goods in the virtual market.

To provide an electronic agent interface for participants to search a plurality of consignment nodes to search for a used good or collectable item.

To provide a means to track down the owner of a particular used or collectable good.

Further, to provide a trusted network of consignment nodes that act as brokers to provide a means to electronically present a used good or collectable to an electronic market.

The foregoing objects and advantages of the invention are illustrative of those which can be achieved by the present invention and are not intended to be exhaustive or limiting of the possible advantages which can be realized. Thus, these and other objects and advantages of the invention will be apparent from the description herein or can be learned from practicing the invention, both as embodied herein or as modified in view of any variations which may be apparent to those skilled in the art. Accordingly the present invention resided in the novel methods, arrangements, combinations and improvements herein shown and. described.

The present invention is a network of Consignment nodes and a low cost easy to use posting terminal for the virtual presentment of goods to market. A consignment node is a computer database of used goods preferably operated by a used good, collectable shop keeper or a bailee. A posting terminal is a low cost easy to use computer and computer peripheral devices used by a small store owner to present goods to a computerized marker and track the sales of goods and control the posted inventory. All consignment nodes users or operators, hereinafter users, are "trusted" licensees or franchisers of the software and hardware necessary to create and operate a consignment node. Thus, the network provides a trusted means for consignment node users, e.g. shop keepers, to establish electronic markets for collectable goods, establish electronic auctions, establish a means for searching each others shops to locate hard to find collectibles items, and a means to electronically present goods to a market. The present invention will allow, or license, certain consignments nodes to become a dominant market maker for a particular

class of goods, for example, a consignment code franchise may be given the rights to establish the dominant market for collectable antique pens. It is understood, a central market maker computer may be virtually divided into different markets with posting terminals used as the means for the market to obtain virtual title goods. Other consignment nodes, after taking physical possession of a good, may make an electronic presentment of that good to such a dominant consignment node market. Thus, a local collector of antique pens may bring a pen to a convenient consignment node in Smalltown, USA, the consignment network would allow this collector to electronically "present" his pen to the dominant market make node for antique pens in for example, Chicago. Participants, e.g. customers and collectors (hereinafter "participants"), may reach a dominant node's market, or any other consignment nodes electronic store, from his or her home by logging on from a PC located at the participant's home to their locally operated consignment node and reaching the distant consignment node through the network of consignment nodes. Thus, each consignment node user, e.g. shop keeper, has a potential participant, i.e. customer base, of all consignment node participants. in other words, a potentially huge customer base that incurs the minimal cost of a local consignment node connection may reach any other consignment node through the consignment node network. And local collector's may economically participate in the collectable markets by using local access to a convenient consignment node "trusted" bailee, and electronically presenting collectable goods to an electronic market.

A consignment node in a simple form may have a computer 10, a digital camera 12, a bar code scanner 14, a display 16, a printer 20, a keyboard 18, a database 22 and a network connection 26 collectively called hereinafter a consignment node. The present invention also has a user interface application program to execute an a user or participant's data terminal 28.

The consignment node may have four modes of operation: a software download mode, an auction mode, a market mode, and an agent mode. The software download mode allows a participant to log into the consignment node and receive a download of a participant interface application program. The auction mode allows a participant, from the participant interface application program, to log into a consignment node to partake in an electronic auction. The market mode allows a participant with the participant interface program to log into a consignment node to browse the consignment node database to search for a used or collectable good. The agent mode allows a participant to log into a consignment node to formulate a search request for a particular used good or collectable. The consignment node may search its own database for the requested good and/or generate agents to search and report back a search request of other consignment nodes.

The present invention may allow a participant to electronically purchase goods from a consignment node and to select whether the good should be shipped to a participant designed location or the participant may take electronic legal ownership of a good and post a new participant defined offer or reserve price. By the interaction of a plurality of participants buying and selling collectibles on a consignment node, posting "buy at" arid "sell at" quantities and prices the consignment node may establish a market or become a "market maker" for collectable goods. A participant may also elect to electronically transfer or present a good to a different consignment node or market. This allows a participant to speculate with collectable goods on the consignment node network's different markets and not incur the shipping costs with physically moving the goods, while providing a trusted means to assure potential buyers of the good's bona fide availability and legal title.

The consignment node operator or purveyor, hereinafter referred to as the consignment node user, establishes his con-

signment node by creating a database of used goods or collectibles, hereinafter the term 'goods" shall be used to reflect used goods, new goods and collectibles. The user takes the first good to be put on the database and invokes the consignment node software to create a data record. For example, the user owns a baseball card collector shop and the user wants to post his Babe Ruth collection. The user in this instance invokes the consignment node to "build the database mode" and the invention initializes the digital camera 15. The user then "photographs" or digitizes the image of the particular Babe Ruth card. The consignment system then displays an empty database record on the display to accept text information concerning the card.

The user fills out the display record with information concerning the particular Babe Ruth card. The consignment node verifies that enough information has been filled out in the displayed computer record, as well known to the electronic database arts, and accepts the record. It should be noted that the consignment node database record has data fields for the consignment node user to add value to his consignment node postings with subjective information such as condition of the card, special features such as autographed by Babe Ruth, and the like. Thus, the consignment node user may build business goodwill into his particular consignment node operation by establishing his own particular subjectivity and quality standards in item postings.

After the data record or the particular Babe Ruth card is accepted by the consignment node the system may print out a bar code label on the printer 20. The user may then put the particular Babe Ruth card into a plastic bag and affix the bar code label to the bag. The bar code labeling system becomes a useful inventory management tool discussed below.

It is understood in this first example that the consignment node user is the legal and equitable owner of the Babe Ruth card and that the user posted a reserve or offer price on the

particular card at his posting. In a second illustrative example, a local resident would like to post, for example, his Frank Robinson baseball card. The resident brings his Frank Robinson card to the baseball card store and tells the consignment node user he would like to offer his Frank Robinson card for a consignment sale. Again, the consignment node user invokes the system database posting mode and "photographs" the Frank Robinson card with digital camera 12. As above, the user fills in the system generated display prompt for information concerning the Frank Robinson card. The resident informs the user of the reserve or offer price and signs or agrees to a consignment contract with the consignment node user to accept the consignment terms to pay the consignment node user on the sale of the card, for example 6%, of sales price as a consignment fee. Again, the system may print the appropriate bar code for the Frank Robinson card. The consignment node user then takes possession of the card and may affix the bar code label to an appropriate cardholder. It should be noted by the consignment node user may again "add value" to his consignment node by entering subjective criteria in the database entry for authenticity, condition, special attributes and the like. The participant or local resident may now electronically present his Frank Robinson card to any consignment node, consignment node auction or consignment node market maker in the consignment node network.

These processes may be repeated again and again to establish a substantial database of goods for sale. It should be noted that the consignment node user may at his discretion take postings from reputable dealers or collectors via a facsimile machine or other forms of electronic or verbal presentment of a good for sale. It is within the sound discretion of an individual consignment node user to establish these practices. It is within the scope of the invention, however, to take electronic postings from other consignment node users or individuals over the network, as discussed below. Each consignment node user may be a franchisee of a central franchiser

and the franchiser may police the network to give quality control, detect fraud and revoke the franchises or licenses of poor quality consignment node users. Thus, the consignment node is a "trustee network for consignment node users providing value to the network by imposing a quality and performance structure on the consignment nodes. The same franchise enforcement scheme is also available to the low cost posting terminal embodiment to the present invention.

The Sale

A buyer, hereinafter participant, may electronically log onto a consignment node via a network connection by use of a PC with participant interface software, through an interactive television application, workstation, Internet browser Dr the like. The network connection drivers for the consignment node are discussed in detail below. The participant may enter the browse node and peruse the consignment node database of goods. It is understood that the participant may receive the image taken with a digital camera 12 of the goods at the participant terminal. The participant, upon finding for example the above-posted Frank Robinson care may decide to purchase the card. The participant may present electronic payment to the consignment node by entering a credit card number and expiration date or other forms of electronic payment. It is understood that a secure and/or encrypted means may be established between a participant's interface application and a consignment node to transfer sensitive or theft prone information. Moreover, a participant may establish an account with his Local consignment node to be debited and credited with the funds used and generated with his transactions.

The consignment node may, for example, clear the transaction by charging the participant's charge card account and crediting the consignment node store account by well-known credit card clearing techniques. After the consignment node has cleared the transaction the system electronically transfers

ownership of the Frank Robinson card to the participant. The participant may then be presented with the choice of directing the delivery of the Frank Robinson card to a desired location or may choose to post a new reserve or offer price for the card and direct the card to remain in the possession of the consignment node user. Thus, the consignment node allows a participant to speculate on the price of the Frank Robinson card and establishes an electronic market for the Frank Robinson card. It is understood that the consignment node may have many Frank Robinson cards available, thus by the interaction of collectors electronically buying and selling the collectibles it will establish a market price for a Frank Robinson card or any other good. For each transaction, the consignment node user extracts the small consignment fee, e.g., 6% of the sales, price, thus the consignment node user directly benefits from operating a reputable consignment node. If the participant elects to take delivery of the purchased goods then the consignment node may track the delivery and ownership of this good to this particular participant in a data record. This data record may be useful to speed the posting of the good, should the participant later decide to re-post and sell the good, and it also creates a valuable database of records to track the possession and ownership of a collectable. This feature may be useful in the agent mode, e.g., tracking down very hard to find items, discussed more fully below.

The Auction

For a rare good, a good in a volatile market, or a good's initial posting the consignment node user or participant may wish to auction the good, with or without reserve, to the highest bidder. In this mode, the good may be posted on the consignment node by the means described above but the data record representing the goad is identified as waiting for an auction date and may not be purchased on the electronic market. Alternatively, an item may be in the electronic market of the consignment node with a high reserve price that may be

lowered in the auction or liquidation mode. Here the consignment node user or the good's participant owner may enter a protected data field a confidential reserve price for the auction mode. The consignment node user arranges by invoking the appropriate consignment node program a time and date for an electronic auction. The consignment node user or good's participant owner may establish, in a data record that represents the good, a desire for the item to be auctioned. For example, a pawnshop operator of a consignment node may have several Rolex watches he wishes to auction with reserve this Saturday night at 1:00 p.m. The consignment node user, here a pawnshop, identifies on the Rolex watch records the auction date and the confidential reserve price. The consignment node system may "advertise" auction dates, items and auction terms in the consignment node log on welcome message discussed below. Moreover, a good that is identified as awaiting an auction date may be viewed before auction in the consignment node browse mode by a perspective auction participant.

At the auction date, perspective participants log onto the consignment node auction mode locally or through the consignment node network and await the first good to be auctioned. It is understood that in the best mode of the invention the participant will have a data terminal with a digital to analog converter such as a "sound blaster" and speaker, the digital to analog capability may be used in the auction mode to bring the aural excitement of an auction, e.g., the call of the heckler, the caller and bidders, home to the auction participant. This is discussed in more detail below.

The consignment node takes the first item to be auctioned and posts the image of the good and the good's text record to the participants. The consignment node then posts the opening bid. It is understood that the bid postings may be in a protocol that invokes the generation of an auctioneer's voice at the participant terminals. The participants may then re-

spond with a higher bid. The consignment node mode scans electronically the participants for bids and accepts the highest bid. If bids are tied the consignment node may take the first highest bid by the participants log on order. A particular bidding participant receives a special acknowledgment from the consignment node that her bid was accepted. The consignment node then posts the higher bid to all the electronic auction participants. The consignment node repeats this process until no higher bid is received for a predetermined amount of time and closes the auctioning of that particular good. The consignment node then checks whether the highest bid received is greater than the reserve price, if appropriate. The consignment node may then post sold! and the sell price to all participant terminals and proceed to post the next item for auction. Again a successful purchaser may elect to direct delivery of the good or post the good on the electronic market at a new participant determined offer price.

It is understood that the terms of the auction sale are posted and agreed to by the participants before allowing a participant to bid on goods in compliance with local requirements and statutes. It is also understood that a participant may make electronic payment for the goods or establish a line of credit or collect on delivery terms within a particular consignment node user's discretion. This may be established by a relationship between a local consignment node user and a local participant at the local consignment user's discretion.

It should be noted that a consignment node user may sell virtual advertising space or a central master node e.g., the franchiser, may coordinate the sale of advertising space on a pool of consignment nodes to reach target market participants. For example, if a participant has purchased or speculated in antique pens, and advertisers of an antique pen specially consignment node wishes to target market individuals on the network who have purchased collectable pens in the past. A central coordinated master node may sell

advertising to an advertiser for the log on message or e-mail targeted participants and users. Thus, the network of consignment nodes can establish a market for target marketing r blanketed advertising of goods and services sold locally or on a network level by a central node.

The Agent

The Agent Mode allows a consignment node participate to search a plurality of consignment nodes and purchase records for a used good. A participant may log onto his local consignment node to shop. This participant, for example may be interested in purchasing a particular used coin for her collection. The participant may invoke a consignment nod Agent to search the network of consignment nodes for this coin. The participant fills in the search parameters for this coin, for example, a 1872 U.S. penny from the Denver Min The consignment node Agent task handler verifies the Agent form is sufficiently filled out and accepts the task. The Agent checks a list of other consignment nodes network address (kept by the local consignment node database and general) an Agent communication message to each consignment node on the list and begins to establish communications to the other consignment nodes. An Agent message between consignment nodes begins by coordinating or reconciling the database on each consignment node of the locations and/or address of other consignment nodes. If a consignment nod has a different list of consignment nodes in its database will pass the node update information to the other consign men t node. The consignment node originating the Agent that will generate a new Agent task to accommodate the information concerning the new consignment node. Once the consignment node database of consignment nodes reconciled, the Agent will seareh the consignment nod database for the goods requested. The Agent will report back whether the search of the local market database was successful and how many good that matches the Agent search request it found. An Agent may

also search the consignment node database of past transactions to identify an owner of particular good. The Agent may then report that John Doe (Main Street, U.S.A. was the last known purchaser of a 187 U.S. penny from the Denver Mint at this node. It is understood that differing levels of privacy are available to consignment node purchasers, so as only allowing the local consignment node user to view past purchaser information and/or provide the Agent with an option of contacting that consignment user so he may contact the prior purchase thus, protecting privacy while allowing bona fide offers reach the prior purchaser in confidence.

Once some of the Agents start reporting back to the Agent originating consignment node, the originating consigner node may report the results to the consignment node participant of the Agents results. Such results may give the total number of matching items found thus providing the local participant/collector an indication of the depth of this market. It is understood that a local consignment node us (may charge participants for Agent requests.

Computer Implementation

In the preferred embodiment of the present invention consignment node may use a multitasking operating system such as UNIX, OS/2, NT or VMS. However, a Microsoft DOS or Windows implementation is within the scope of the present invention. The consignment node may be networked via TCP/IP and the internet or a private TCP/IP network X.25 private or public network or service providers network of ISDN, ATM and the like. It is understood, that a consignment node may support a plurality of protocols simultaneously. Moreover, it is understood that the participant interface application program may execute on a wide variety of platforms such as PC's, MAC's, Power PC's workstations, cable set-top boxes, video game hardware an the like and are within the scope of the present invention The posting terminal embodiment is discussed in data below.

BRIEF DESCRIPTION OF THE DRAWINGS

FIG. 1 shows the consignment node of the present invention may have a computer 10, a data storage device 22, a tape drive 24, a digital camera 12, a bar code scanner 14, a display 16, a keyboard 18, a laser printer 20, and a network connection 26. A participant user terminal is shown at 28.

FIG. 2 shows a schematic block diagram showing the logic flow of a user log in at a consignment node.

FIG. 3 is a schematic diagram showing the logical flow of the consignment node auction process.

FM. 4 is a schematic diagram showing the logical flow of the consignment node market or browse mode.

FIG. 5 is a schematic block diagram showing the logical flow for posting a new used good on the consignment node.

FIG. 6 is a schematic diagram of a subroutine that may be used to post auction bids.

FIG. 7 is a schematic diagram of a subroutine that may be used by the consignment node auction process to receive participant auction bids.

FIG. 8 is a schematic diagram showing the logical flow for a subroutine that may be used to transfer ownership of an item.

FIG. 9 is a schematic diagram showing the logical flow for a consignment node in-store sale of a good.

FIG. 10 is a schematic diagram showing the logical flow of post-processing and analyzing consignment node sales.

FIG. 11 is a schematic diagram showing the logical flow of the consignment node Agent handler subroutine.

FIG. 12 is a block diagram of the posting terminal to market maker computer connections.

FIG. 13 is a diagram showing a user interface on a posting terminal or consignment node.

DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENTS

It is understood that the get session identification procedure 100 is a routine that monitors the communication ports and virtual communication ports residing on a protocol stack. The consignment node may use, for example, a X25 interface card, available from Eicon Corporation or Frontier Corporation to execute an X.25 protocol stack in a PC workstation. The get session identification 100 program may monitor the X.25 protocol for incoming calls. If the program identifies an incoming call it may answer the call by transmitting the appropriate X.25 packet to the network on the appropriate virtual channel. It is understood that other protocols, such as TCP/IP, DECNET, SNA and ATM are within the scope of the present invention and that multiple protocol stacks may simultaneously execute in a consignment node. Therefore, the get session identification program 100 may have multiple instances to connect and monitor the various protocols. After the get session identification 100 has appropriately answered an incoming call to the consignment node, it may invoke the display welcome message and menu routine 102.

It is understood that the get session identification 100 provides sufficient information to the display welcome message and menu 102 to allow the display welcome message and menu 102 to connect to the appropriate session or virtual channel. At this juncture, if the participant is using an approved interface program, the interface program will send a predetermined code to indicate its version and other characteristics of its display driver. If a participant is logging in from a TN terminal or other terminal the display welcome message and menu 102 may detect this information and send the appropriate TTY welcome message. This procedure may also be used to identify features and languages supported on

various internet world wide wet browsers. It is understood that the welcome message viewed by the consignment node user as virtual advertising space that may be sold by the consignment node user of coordinated with the master control node (discussed in detail below). The participant may respond to the display welcome message and menu 102 program by giving an appropriate log on response 104. The get log on response 104 may verify and grant a level of access privileges to the participant. It is understood that the consignment node user may require the get log in response 104 to retrieve a credit card number, pit number, user ID and the like, to grant access privileges. If 2 participant is using a TTY terminal those sessions may be shunted to the download interface program (DIP) 106 routine to receive an appropriate interface program from the consignment node. The DIP 106 may present a list of choices as to what version interface program should be downloaded, such as DOS, Windows, UNIX, MAC platforms and what transfer program is desired such as Kermit Xmodem, FTP and the like. A participant with a participant interface program may also elect to receive a new interface program from the DIP 106. It is understood that an older, no longer supported interface program participant may be shunted to the DIP 106 to receive a new interface program

A participant with a supported interface program may select the auction 108, market 110 or agent handler 112 sections of the consignment node if a participant selects auction 108 the participant may be presented with a menu of auction selections such as auctions in session, future auction times, dates, locations and topics, and auction preview. If a participant selects auctions in session the participants' session is passed to the appropriate auction handler, as discussed below. If a participant selects future auctions the participant will be given a list of future auction times, dates terms, locations and topics of auctions on this and other consignment nodes it is understood that these display represent a virtual advertising opportunity for the consignment node user and the advertising

space may be sold by the consignment node user or by the master control node. If the participant selects the auction preview, the auction process 108 passes the participant session to the market session UC with data that indicates an auction preview desired by the user.

If the participant selects the market 110 choice the participant is given a menu of markets that the participants may browse, discussed further below. If the participant selects the agent handler 112 the participant may be provided with ac electronic form to create a search for a good. The participant may then execute this Agent's search request to search the network of consignment nodes databases to look for the desired goods. The Agent is discussed more fully below. The Agent Handler 112 also receives incoming calls from other agents to process the external agents search request on the consignment node. The participant interface and consignment node participant functions are discussed in detail below. It is understood that the agent may also function between virtual markets on a market maker computer and with the transaction archive database discussed below. The discussion now turns to the operation of the consignment node by the user.

FIG. 3 shows a logical flow diagram of the steps the consignment node may use to create a database record of a good for sale or for auction.

The consignment node user may invoke the consignment node program to enter the posting 200 mode to create a data-record for the good. The posting 200 mode initializes 204 the consignment node to receive information on a new good. The initialization 204 step displays a data record with data fields on the consignment node terminal for the user to fill in information on the good. The initialization step 204 also initializes the consignment node peripheral devices such as the digital camera 12 and the printer 20. The consignment node user then "photographs" or digitizes the image of the good from one or more perspectives as well known to the digital camera

arts. The consignment node receives the digitized images) at receive image 206 step. The consignment node program then prompts the consignment node user for information on the good 208. The consignment node receives information 210 that the consignment node user inputs to the data record displayed at step 208. The consignment node program verifies 212 that the necessary information, such as owners name, reserve price, market or auction designation is in the data record. The verify step 212 will reject the record and return the consignment node user data entry mode 210 if the record does not have the minimum information. If the record is verified 212 as complete enough to commit to the consignment node database, a data record is created 214 and linked into the consignment node database. The consignment node program then generates and prints a bar code 216 that indicated the data record. The bar code system is used by the consignment node to maintain an accurate inventory and is a hook for local sales (discussed below). The posting routine may then exit 218 and return from the posting program. By repeating the posting routine of FIG. 3 the consignment node user may build a database of goods for the consignment node market, auction and/or agent searches.

FIG. 4 shows the logical block flow diagram of the processes the consignment node may take to execute an auction. It is understood that the consignment node user may manually invoke the auction process, or may schedule the consignment node to execute the auction process. The auction process begins by initializing 250 the data structures, records, queues and the hire to conduct the auction process. The connection between the auction process and auction participants is discussed below. The auction process gets the first item to be auctioned 252 from the database of goods to be auctioned 254. The consignment node then calculates the opening bid 256 by a predetermined formula such as 50% of the reserve or general solicitation of an opening bid is posted to the auction participants 258. The consignment node auction mode

then scans the participants for a higher bids 262. If a higher bid is found the new bid is posted 264. It is understood that the steps of checking for bids 260 determines if the bid is higher 262 and posting the new higher bid 264 is repeated until no higher bids are received. After the typical auction closing of going once. twice . . . three times the auction is closed 266. The consignment node auction program then compares the highest bid received with the good's reserve price 268 to determine whether to transact the sale. If the highest bid is greater than the reserve price the consignment node auction process posts sold! for xxx amount to the auction participants and calls the transfer ownership sub-routine 270, discussed further below, and transfers the ownership of the good. If the highest bid is less than the reserve price the consignment node auction process announces no sale! 272 to the auction participants. The auction process then proceeds 274 to get the next good to be auctioned 278. The consignment node auction process is then repeated until all the goods to be auctioned have been run through 278. The consignment node auction may then close and terminate the participant sessions 280. It is understood that the trasfer ownership 270 sub-routine may require time to clear the tranaction and, therefore, may be best implement as a spawned child process to the auction process. This will keep the consignment node auction executing at an exciting and fast pace for the participants. The consignment node auction process itself may execute in several instances to provide simultaneous auctions on a consignment node. Thus a consignment node may conduct several simultaneous auctions on several virtual runways. It is understood that in the auction mode the consignment node and the participant interface software may communicate using a protocol that allows the consignment node auction driver to "point to" locations stored in the participant interface software, to cause the participant interface software to generate the sound of a auctioneers voice on the sound blaster, or equivalent board. Thus, the present in-

vention uses pre-stored sound samples of different auction prices and auctioneer "string" along aural calls inside the participant interface software, and allows the generation of said pm-stored sound bites to be invoked by the consignment node driver through the said special protocol. This method greatly reduces the bandwidth necessary for a consignment node to support the generation of exciting auctioneers calls at a plurality of participant terminals. It is understood that the generation of an audio bit stream from the consignment node to the participant terminals is also with the scope of the present invention.

FIG. 5 shows the logical flow for the post bid subroutine 300. The post bid sub-routine may be invoked from several consignment node processes, those specifically described thus Ear are the post opening bid 258 and posting bid 264 logical processes. The post bid 300 sub-routine is used to communicate between a consignment node and multiple participants. The post bid 300 sub-routine gets participant session identifications 302 from a data record or data structure that contains a list of session identifications of participants who have logged onto the auction sessions. The next step sends the bid passed to the post bid 300 subroutine to each participant session identified in the data structure 306. Bids are posted to each participant through an appropriate driver 308. The driver may be identified for each particular user session. For example, a PC user logged into the consignment node via an X.25 virtual channel may require a host PAD driver in the consignment node to communicate asynchronously to the PC terminal interface application. A network user may require a TCP/IP driver to connect between the consignment node and the participant networked terminal After communicating the bid to participants through the appropriate device driver 308, the post bid sub-routine may exit and return 310 to the calling routine.

FIG. 6 shows the consignment node subroutine to check participant sessions for bids during the auction mode. Check for bids 350 maybe a subroutine called by the auction program to scan for bids. It is understood that when a participant logs into the consignment node and selects the auction mode, (see FIG. 2), the participant's session identification is passed to a data structure. The data structure maybe used by the check for bids 350 sub-routine to correctly identify participants at a particular virtual auction. As noted above, the consignment node may support multiple simultaneous auctions, therefore, may require multiple instances of the aforesaid data structure. The check for bids sub-routine 350 opens or connects to the appropriate data structure storing or holding participant session identifications who are participating in the check for bids calling auction program instance at the get session identification step 352. The buffers associated with each session is scanned for an input 354. If a participant has input an "exit" command or symbol 356 the routine removes that participant's session identification from the auction identifying data structure and allows the participant to exit 362 the auction. The participant's session identification may be returned to a data structure that allows the participant to return to the consignment nodes main menu, see FIG. 2, or terminate the participant session. The subroutine then compares the bids and takes the highest bid 358. If bids are tied for the highest bid the sub-routine may use the first received bid and reject the others 358. The sub-routine then notifies the participant session who bad the highest bid 360. It is understood that the take the highest bid step 358 and notify bidder step 360 are aware of the current bid price for a good and will not allow a lower bid to be accepted. It is understood that the participant session buffers are flushed after they are scanned to remove old or latent bids. The check for bids sub-routine then returns to its calling routine.

FIG. 7 shows the transfer ownership routine 400 that may be used to transfer the ownership of goods and collectibles in

the consignment node. The transfer ownership subroutine may be called from several consignment node modes and processes to effect the transfer of legal ownership. The first step in the transfer ownership sub-routine 400 may be to verify a participant purchaser information 402. It is understood that the consignment node may use a variety of well known authenticating procedures to verify a participant, such verification techniques include personal identification numbers (PINS), passwords, call back, and a plethora of encryption techniques and personal information identification means to provide a reliable verification technique. It is understood that a consignment node user may have established a credit or deposit account for the participant from past sales or the transfer of funds and the verify step 402 may connect the participant to the account. The clear charge 404 step is used to clear the participant consignment node transaction. It is understood that this may be via an external credit card clearing network, a connection to a credit account, or though one of the many proposed electronic fund transfer schemes such as debit cards, e-money, and clearinghouses. After the transaction clears the charge 404, the consignment node credits the consignment node users commission account 406 to extract the consignment node transaction fee. The consignment node then transfers legal ownership 408 of the good by changing the ownership entry in the data record in the consignment node of the good. The consignment node may then print a record of the transaction 410. It is understood that step 410 may also be used to keep a log on the consignment node storage or tape drive. The consignment node then removes the good from sale or auction status 412. It is understood that the data record representing the good is "locked" during the transfer ownership sub-routine to prevent collisions of actions and transfers of the good. If the participant has elected to ship goods then the consignment node will print a shipping label 404 for the consignment node user to attach to the good for shipment. The transfer ownership routine may then exit 416.

If the participant has elected to re-post the good or collectable the participant may specify a new reserve or offer price for the good or collectable. It is understood that the purchasing participant may elect to leave the good or collectable at the consignment node and post a new offer or reserve price and may identify that the good is on the market, e.g. may be bought and sold at any time, or that the good is awaiting an auction date. Moreover, the participant may elect to have the good viewable on the market or "invisible" to the market while awaiting an auction date 422. It is understood that the participant may elect to leave the good at the purchased consignment node and electronically transfer the offering of a good to another consignment node. It is understood that consignment node users may run a "trusted" network between consignment nodes to provide the trust between merchants, that the goods exists and that the network between the consignment nodes to provide for electronic presentment of a good is a secure network connection. This allows collectable goods to be concentrated for a single electronic auction or virtual collectable market on a market maker consignment node without incurring the costs of shipping the goods to a central location to bring the good to the market maker consignment node. It is understood that the trusted posting of goods on a market maker node is a value added feature a small town consignment node user can provide to his immediate collector community. It is understood that the master central node may also serve as a legal consignment node franchising authority to provide enforcement of integrity, security and quality control for the consignment node network.

FIG. 8 shows the consignment node routine that maybe used to establish a virtual market. The market 450 may be selected from the consignment node main menu, see FIG. 2, to allow a participant to browse the consignment node goods database. The market 450 will display to the participant market categories 452, categories may be defined by the consignment node user to reflect the specialization of his con-

signment node and the specialized markets or miscellaneous markets for his goods. The consignment node then gets the participants response 454 to the market choices. The consignment node may then display market sub-categories 456. Again, the consignment node user may specify market sub-categories to reflect the specialization of the consignment node. The consignment node may then display items 458 and get the participant or market user response 460 to the displayed choices. It is understood that the participant may browse or scroll through the goods on the market 462,458,460 until the participant responds with a desire to exit the market 463. If the response is a desire to transfer to the market root directory 464 then the consignment node will return the participant to the market subcategories 456. If the participant responded with a desire to terminate the session 466 the consignment node will exit the market and terminate the participant's session. it is understood that during the browse loop 458,460,462 a participant may elect to buy or make an offer on a good and may invoke the transfer ownership routine, see FIG. 7, to effect the transfer of a good's ownership. It is also understood that a participant may make an offer on a good below the asking (or offered) price. Such a proposed offer may be stored by the consignment node and used to notify the good owner. The good owner way then accept the counter offer or reject. it is understood that a participant counter-offer may be made subject to an acceptance before date. It is also understood that a participant may establish a "buy at" or "sell at" price/quantity for any good in the market.

FIG. 9 shows a logical flow diagram of the process that may be use to transact the transfer of ownership of goods on a consignment node at the store where a consignment node may be located. The consignment node user invokes the store sale sub-routine 500 from a consignment node user terminal, see FIG. 1. The consignment node user may use the bar code scanner to scan the bar code of the good for sale 502. It is

understood that the consignment node user may manually recall or search the consignment node database for the data record of the good or may let the consignment node software use the bar code to automatically retrieve the record 504. The data record is then scanned to retrieve price and sale information on the good 506. It is important to note that a good, while on display at a consignment node user's shop may have transferred ownership and changed price via network participants. The consignment node then displays this information 508 at the consignment node user terminal. The store customer may then elect to purchase the good. The consignment node may process a store customer purchase request by calling the appropriate sub-routine to transfer ownership, see FIG. 7, of the good.

FIG. 10 shows a logical process diagram for the central node to collect and process data concerning transactions on a plurality of consignment nodes and provide value added feed back to consignment node users on market positions and is trends. Data processing 550 may be executed on a consignment node or the central node to extract transaction data from a consignment node. It is understood that the tape drive, or storage device may be used to log network transactions on the posting, auctioning, buying and selling of goods and collectibles on a consignment node. This information may be collected by the central node over the consignment node network. The central node may then plot sales, sale date, price over time and the like to create graphs of market performance 554. It is understood that the data correlation and processing steps 554,556 may be customized to provide a particular consignment node user with useful market information. The central node may also provide hard copies or electronically transfer the information to the consignment node users. It is understood that this may be a value added feature of a service that may be provided by a franchiser. It is understood that the central node may log into a consignment node, with well known remote processing and data transfer techniques such as

the logon and FTP UNIX utilities to make changes to the aforesaid virtual advertising space on a consignment node.

FIG. 11 shows the agent handler the consignment node may use to establish agent-to-agent and consignment node—to—consignment node connections to process participant agent requests. The agent handler 600 may be entered by a predetermined series of codes and verification procedures to verify a request for an agent connection to the consignment node is from a bona fide agent and a bona fide consignment node. Once this is verified the agent handler may establish a session for the requesting agent 602. The requesting agent may then transfer its agents request to the on consignment node 604 and the consignment node may then check its local database 606 to try to match the agents search request. The agent handler may then respond to the agents request 608 and terminate the agent session 610.

A second embodiment to the present invention, shown in FIG. 12, uses a low cost portable "posting" terminal to allow the virtual presentment of goods to market. The posting terminal has a digital camera, a bar code printer, a bar code scanner, a modem and posting terminal software. The posting terminal works in conjunction with a market maker computer. The market maker computer has a database of goods for sale, a posting/de-posting communication handler, a database to world wide web (www) mapping module, a www server, a transaction process, a posting terminal communication manager, a sold database, a shipping database and an account database and has much of the functionality of the previously described consignment node.

The posting terminal acid market maker computer functional block diagram is shown in FIG. 12. The posting terminal has a camera interface 701, and image processing module 702, a record maker module 704, a storage unit 710, for storing images and records that have not been posted, post module 712, a select records module 714, a post request

module 716, a print bar code module 718, a get mail module 720, a storage unit for holding posted records and return codes 722, a de-post module 724, a get code module 72f and de-post request module 728, a bar code scanner interface 730, another instance of the get mail module 720, a mail sales routine 738, a print shipping label routine 740, a notify store routine 740, and a check sales module 734. The posting terminal 700 contacts a market maker computer 800 to check sales, to post goods, to de-post goods and to receive mail. The posting terminal 700 is easier to administrate than a consignment node because it behaves like a retail point of-sale terminal to manage goods that have been posted an are locally sold. The bar code labeling and scanning routine and methods make it easy for the posting terminal user to maintain an accurate account of what goods have bee posted, de-posted, sold and/or shipped. The posting terming may use an MS-DOS or MS-WINDOWS operating system that is much easier for a small store owner to operate an administer than a complex multi-user system like UNIX or WINDOWS NT.

The posting terminal 700 functionality begins with a use taking a digital picture with the posting terminal digits camera and connecting the digital camera to the camera interface module 701. The user selects an icon on a graphic user interface generated by the posting terminal software t pull the digital pictures from the digital camera. It is understood that other input devices such as scanners and the like may be use in place of the digital camera. The image process module 702 may convert the digital picture to a compressed data format such, as JPEG or MPEG, more suitable for communication of the image across a data link. It is understood that the image may keep it's full resolution for posting. The posting terminal then invokes the record maker routine 704. The record maker routine 704 may display the image or allow the user to select an image from storage unit 710. The record maker may display on a posting terminal display a data entry record with pre-defined text fields, number fields, "buttons," knobs and

other graphical user interface objects to allow a user to enter data to complete a posting record.

FIG. 13 shows an example of a graphical user interface that may be presented to a posting terminal 700 user. The graphical user interface for the posting terminal 700 may include an image of the item represented by the record 920 a description of the item 922, and 924, the "push button" commands to receive pictures from the digital camera 926 to post a record 928, to clear a local sale 930, to de-post a record 932, to access files of records 934, to view and/or receive and stud mail 938, a database category field 940 with a pull down selection bar 942, a database subcategory 944 with a pull down selection bar 946, a code field 948, a posting date field 950, a store identification 951, a market designator field 954, a description field 956, a reserve or wholesale price field 958, and identifier 960, a retail or full price field 962 and identifier 964. The category 940 and sub-category 944 data fields are restricted to selections the can be made by the respective pull down bars 942 and 941 This aids the posting terminal operator in selecting the correct market for the good when creating a record an assures that all records, can properly link into a market computer 900 market database. A file may be stored at posting terminal 700 that corresponds to database structure at the market maker computer 800. Having the database structure in a file at posting terminal 700 may allow the posting terminal to receive updates by remote file transfer techniques, such as the KERMIT, FTP, xmodem and ymodem protocols. It is understood that certain selections from he market category 940 and subcategory fields may be "greyed" or that is blocked from selection by a posting terminal 700 user to enforce a franchise and/or license grant hat only allows posting in a certain field. This may allow a franchising scheme that restricts a franchisee to a field of use and/or category of goods. The code field 948 displays the bar code data in text form that the market maker computer 900 tends to the posting terminal 700 when a record is successfully posted.

Therefore, the code field 948 can serve as a quick visual confirmation to the posting terminal user that the displayed record has been posted. The market field 952 may also be a restricted selection field accessible by pull down selection bar 954. Fields selectable by the market field 952 may include auction, on-sale, hold and the like to give additional directionality to the record posting. The price 964 and reserve price fields 958 may be used to structure the two-tiered market of dealer-to-dealer and retail markets. The reserve price identifier 960 and reserve price field 958 may be hidden from view to retail participants. A dealer may be provided with special log on identifications and passwords to view the reserve price 958 and reserve price indicator 960. This feature encourages franchisees to use the electronic market for collectable goods dealer participant interface to generate local sales.

The posting terminal 700 user enters descriptions such as the name of the item, the sale price of the item, and a brief description of the item and the like to compose a record. It is understood that a posting terminal user may enter a retail price and a wholesale price. The retail price may then be displayed to participants 900. Other retail participants 902 may receive the wholesale price. It is understood that this two-tiered pricing scheme may be used to network retail store owners to provide additional incentives for the retail participants to use the network to locate goods and generate sales at the retail point of sale. For example, a retailer may charge the retail price for goods to store customers, while obtaining the benefits, e.g. the profit margin of wholesale or discounted pricing for goods. It is understood that the restricted fields are coordinated with the structure of the For-Sale database 814 to guide a posting terminal 700 user in the proper selection of a market category and subcategory of the posting of a good. Categories may include jewelry, rugs and tapestry, tools, quilts, furniture, art deco, books, pens, coins, stamps and costumes and clothing. Subcategories may include painting

and drawings, sculpture, vintage clothing, costumes, shoes, bags, hats, wedding gowns, furs, rug types and the like to structure the database. The user may also select from a list box what category and sub-category from restricted fields in which to post a good. Referring back to FIG. 12, the user may store a composed record on the storage device 710. The record maker routine may also contain a command button 706 to immediately post the record 708. It is understood that the user may designate a time at which the posting terminal 700 may automatically contact the market Maker computer 800 and post the selected goods. The post request 716 module may allow a user to select records from storage unit 710 or as in the case where the user selected the immediate post command 708, the post module 712 may accept a record as an input. The ability of the posting terminal 700 to store and select records for posting asynchronously from when a record is created allows a user to compose records when the posting terminal is isolated from communication with a market maker computer 800. The post module 712 may invoke the post request module 716 to post the designated records on the market and make a virtual presentment of a good. Rules and procedures may be imposed on the posting terminal 700 user throng) licensing and franchise agreements. Such rules may include the requirement that all goods posted must be in the physical and legal possession of the posting terminal franchisee or licensee, that legal possession of a good may be obtained by lawful ownership or through a franchise approved bailment or consignment contract. It is understood that these rules and legal frame work may be imposed to allow the posted record to convey a legal title to a good such that the ownership designated in the record grants lawful ownership to the good designated by the record. The post request module 716 may use a communication package and protocols to transfer fiat records to the market maker computer 800. Communication libraries are packaged and are commercially available front WCSC 2740 S. Dairy Ashfor.

Suite 188, Houston Tex 77077 and from Marshalls of the Computing, Inc. at P.O. Box 4543 Huntsville, Ala. 35815. The communication protocols such as FTP and KERMIT may be enhanced by using known encryption and authentication techniques to provide an ultra-secure posting interface. The posting record may also include a header that identifies a store identification, user identification, passwords and the like to allow the market maker computer 800 to verify authenticity, approve autho rization and track usage of the posting terminal 700 by particular posting terminal 700 and posting terminal user.

The market maker computer 800 may verify and accept a record and generate and send a unique bar code number for each record. The bar code number may contain a code that identifies a posting terminal 700. The posting terminal accepts the bar code and places the code in the appropriate record. The unique code generated for each successfully posted record may serve as confirmation that a good has been successfully posted. The record may then be stored on storage unit 722 as a confirmed posted record. When the posting terminals' post request module 716 is finished, the posting terminal 700 or the market maker computer 800 may invoke a mail update routine 720 to pass mail from the market maker computer 800 to the posting terminal 700. Mail topics may include sales information 734, network news 736, and notification of upcoming events 738. The deposit module 724 may use the bar code scanner 730 to receive a posted collectible's identification code. The de-post module 724 may call the de-post request routine 711 to establish communications between the posting terminal 700 and the market maker computer 800. The de-pose request module 728 sends the item or collectible bar code to the post/de-post handler 802. The post/de-post handler 807 may remove the collectible identified by the bar code Iron the for-sale database 814, if the de-posting terminal identification has legal title to the identified collectible as indicated in a for-sale record, the market maker

computer 804 may send a de-post confirm code to the posting terminal 700, The posting terminal 700 may process the confirm signal by indicating that the de-posting procedures was performed. Its legal title to the posted collectible good does not belong to the de-posting requesting entity, e.g., the de-posting terminal 700 then indicated by the posting terminal identification, the market maker computer 800 may report the collectible good status, e.g., sold!, to the de-post request module 728. The may indicate to the posting terminal user that a bailee relationship now exists between the store and the new legal owner. It is understood that this bailee relationship may be contractually created and enforced through the franchise contract between the posting terminal user and the franchise granting authority. It is also understood that the bailee agreement may be for a predetermined time and/or require the posting terminal user to hold a good for a predetermined time and/or ship the good to a long term storage facility to ease the bailee burden of posting terminal users where a participant elects to hold legal ownership but keep the good available in the electronic market place for the long term. It is understood that a bond and/or insurance requirements may be required for the posting terminal user and/or the long term storage facility to provide assurance to a long term collectible investor that the risk of loss of the collectable good asset is maintained or at least hedged against loss. It is understood that a good may have sold and the new owner has elected to re-sell the good at a higher price. In this instance, the de-posting terminal will be advised that the good has been sold and advised of the new sales price. The posting terminal may then transact the local sale at the new price. After the de-post request module 728 is finished it may invoke or the market maker computer 800 may invoke the get mail routine 720 to send mail between the market maker computer 800 and the posting terminal 700. It is understood that through the procedures of generating a unique code for each posted good, checking a unique code that identifies each posting terminal

700 against the legal owner entry in a posted good on the market maker computer 800 the database of for-sale goods 814 will be extremely reliable and accurate and assure that a locally sold goods that have already been sold on the market maker computer 800 will not be inadvertently sold twice. The procedures, when used in conjunction with the rules and procedures imposed on the posting terminal user through a franchising or licensing legal framework assure that (1) when a record of a good is found on the market maker computer 800 by a participant 900 or another retailer 902, it is in fact for-sale and is in the physical and legal possession of a "trusted" franchise and (2) that when a bona fide purchase price is tendered by a participant 900 or another retailer 902 the legal title to a good as represented by the record will transfer to the buyer with an immediate or nearly immediate finality to the transaction. This frame work of trusted franchisee, high confidence and accurate market database, and the legal finality of transaction, where the legal transaction case clearing function is performed by the market maker computer, e.g., the participant credit card number or other payment means is only revealed and brokered by the market maker computer 800, is a massive step toward building confidence and trust between a small collectable merchant and participant with electronic transactions. These procedures may be used to give assurances and create trust to participants, who for example would like to buy and art deco collectable from a collectable shop in Russia but is very reluctant to send credit card information to an unknown Russian collectable shop for the obvious concerns of credit card fraud and/or fraud in the bona fides of the collectable good itself. Here, however, the franchising authority polices the franchisees to revoke the franchise if a fraud and/or misrepresentations of the bona fides of a collectable good is taking place by the posting terminal user and the assurance that credit card numbers are only revealed to the market maker computer 800 and not accessible to the, in this example, the Russian

collectable store. This allows the Russian collectible store to receive the business good will of the electronic collectible market place of the present invention to establish immediate trust with prospective electronic customers.

The market maker computer 800 may have mail module 801, a post/de-post handler module 802, a security module 804, database server 806, a database to www map module 808, a www page server 810, a transaction processor 812, a for-sale database 814, a sold database 816, a shipped database 820, and an account database 824. A www to database mapping 808 module is commercially available from Expertelligence, Inc., Santa Barbara, Calif. at (805) 962-2558. Such a mapping module may map a ODBC database such as Microsoft Access to a www page. The market maker computer 800 may serve four primary functions. The first function is the call handler for processing calls from a posting terminals 700. The second function is a database to www mapping function to present participants 900 and other retailers 902 with a means to access the market database. The third function is to provide a means to process transactions from participants by clearing a transaction and transferring legal title to a good. The fourth function is to provide a means for managing the notification of the sale of a good to posting terminals 700.

The market maker computer 800 may use an accounts 824 database to track payments due to posting terminal 700 users. The clear accounts 825 module may print checks due to posting terminal 700 users. It is understood that electronic funds transfer techniques may be used for clearing account balances 825 for posting terminal users. A modem bank 803 may be used to receive posting calls from posting terminals. It is understood that the modem bank may be replaced by a network connection to the interact. At this juncture it is believed that an off-line that is a modem bank, connection offers the best security for the posting of goods. However, it is under-

stood that a network connection, e.g. through the interact, is within the scope of the present invention.

A security module 804 may be used to provide identification and password security. It is understood that other security and authentication techniques may be used at security module 804. It is understood that database server 806 may be an ODBC server available from many commercial database providers. Much of the market maker computers 800 functionality is disclosed above in the consignment node functionality. The databases may be structured to indicate of for-sale 814 database and sold database 816, and auction database 817 and a shipped database 820. It is understood that records may move between the databases by book entry transaction. The transaction processor 812 may use RSA certificates and/or other well-known techniques to process secured transactions between the market maker computer 800 and participants 702 and 902. It is understood that the transaction processor 812 may interface with external payment systems 826. It is understood that participant accounts may be tracked at the market maker computer 800. Moreover, it is understood that account surpluses may be acquired by participants speculating in collectable goods may be invested in highly liquid and safe assets such as U.S. Treasury bills to provide and interest bearing accounting for positive cash balances. This provides an incentive, or at least a hedge against inflation, for a participant to keep funds within the collectible market place and to use these funds to speculate in the collectible market. By using funds available at the market maker computer 800 participants can reduce the transaction costs associated with credit cards and other transaction clearing means and optimize the participants' return on price movements in the buying and selling of collectable goods. It is within the scope of the present invention to allow access to the electronic collectable market through stock brokers, banks, and other transaction providers through these providers private transaction networks, e.g., those networks that use dial in telephone

lines to home computers and/or dedicated data lines. It is within the scope of the present invention to allow professional investment advisors to operate funds such as investment companies, mutual fund partnerships and the like, that use collectable goods as part of the funds assets. It is understood that the market "history" may be archived and provided to investment advisors and/or posting terminal users and/or participants on a CD-ROM or other mass storage medium to allow off-line analysis of trends in the collectable goods market. This will allow or create a new class of "learned" speculators in this unique, novel and non-obvious electronic market place and network of trusted franchisees in the collectable goods domain. It is also within the scope to the present invention to create the liquidity, volume and availability analysis to allow the creation of a secondary and derivative market for option and futures contracts and other speculative constructs to be created with the underlying assets as collectable goods in the electronic market place of the present invention.

Many variations of the present invention are possible once the present invention is known to those skilled in the arts and are within the spirit and scope of the present invention. Those skilled in the arts will be able to make many variations on the present invention once this invention is known to the arts.

Therefore, I claim:

1. A system for presenting a data record of a good for sale to a market for goods, said market for goods having an interface to a wide area communication network for presenting and offering goods for sale to a purchaser, a payment clearing means for processing a purchase request from said purchaser, a database means for storing and tracking said data record of said good for sale, a communications means for communicating with said system to accept said data re

cord of said good and a payment means for transferring funds to a user of said system, said system comprising:

a digital image means for creating a digital image of a good for sale;

a user interface for receiving textual information from a user;

a bar code scanner;

a bar code printer;

a storage device;

a communications means for communicating with the market; and

a computer locally connected to said digital image means, said user interface, said bar code scanner, said bar code printer, said storage device and said communications means, said computer adapted to receive said digital image of said good for sale from said digital image means, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said data record to the market for goods via said communications means and receive a tracking number for said good for sale from the market for goods via said communications means, store said tracking number from the market for goods in said data record on said storage device and printing a bar code from said tracking number on said bar code printer.

2. The system of claim 1 wherein said textual description received from said user interface includes a sale price for said good for sale, wherein said computer adapted to transfer said data record further conveying a binding offer for sale of said good at said price from said computer to said market.

3. The system of claim 1 wherein said computer is further adapted to receive said bar code from said bar code scanner, said bar code identifying said tracking number of said good for sale on the market for goods, transmit said tracking number to said market for goods arid retrieve said data record identified by said tracking number, wherein said computer adapted to transmit said tracking number further conveys a withdraw of said binding offer for sale of said good at said price from said computer to said market.

4. The apparatus of claim 1 wherein said image input means is a digital camera.

5. The apparatus of claim 1 wherein said image input means is a digital scanner.

6. The apparatus of claim 1 wherein said communications means is a modem.

7. The apparatus of claim 1 wherein said communications means is via an internee.

8. A market apparatus for use with a posting terminal apparatus, said posting terminal apparatus having means for creating a digital image of a good for sale, means for creating a data record of said good for sale, a tracking number printer means, a tracking number scanner means and means for communicating to said market apparatus, said market apparatus comprising:

a communications means for communicating with the posting terminal apparatus;

a post/de-post communications handler operably connected to said communications means, said communications handler receiving a data record of a good for sale from the posting terminal apparatus, said communication handler detecting a predetermined posting terminal apparatus identification code from the posting terminal apparatus and verifying from said code that the posting terminal apparatus is an authorized user of said market apparatus;

a storage device operably connected to said post/de-post handler, said storage device adapted to receive and store said data record of a good for sale, said data record containing an image of said good for sale and a textual description of said good for sale;

a presentation mapping module operably connected to said storage device and a wide area communication network, said presentation mapping module providing via said wide area communication network an interface to said market apparatus for a participant, said presentation mapping module providing said participant with access to said data record textual description and said image of said good for sale;

a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and payment means from said participant, clear said purchase request and payment means and if said payment means clears then transfer the ownership of said good for sale by modifying said data record of said good fur sale to reflect the new ownership of said good for sale by said participant; and

a notification means operably connected to said transaction processor said notification means notifying the posting terminal apparatus in response to said transaction processor transferring ownership of said good for sale denoting with a finality of transaction said new ownership of said good.

9. The market apparatus of claim 8 further comprising:

a security handler operatively connected between said post/de-post handler and said data storage device, said security handler providing means for authorizing, authenticating and securing said communications between said post/de-post handler and said data storage device.

10. The market apparatus of claim 8 wherein said data storage device is a relational database.

11. The market apparatus of claim 8 further comprising:

a world wide web server operably connected between said presentation mapping module and said wide area communications network, said world wide web server providing said participant with data entry fields in predetermined categories in which to request a search of said data storage device for a data record of a good for sale.

12. The market apparatus of claim 8 further comprising;

an accounts database operably connected to said transaction processor, said accounts database containing an account number to track the funds payable to said user of said posting terminal apparatus, where said funds payable is generated from transfer of said good to said participant of said market apparatus.

13. The market apparatus of claim 8 wherein said post/de-post handler generates a unique tracking number and sends said unique tracking number to the posting terminal apparatus in response to said post/de-post handler receiving said data record of said good for sale from the posting terminal apparatus.

14. The market apparatus of claim 8 wherein a relationship exists between said market apparatus and a user of the posting terminal apparatus, said relationship conferring on said act of receiving said data record of said good for sale a legally binding offer for sale of said good at a predetermined sale price of said good.

15. A market apparatus for use with a posting terminal apparatus, said posting terminal apparatus having a digital camera for creating a digital image of a good for sale, a record maker module for creating a data record of said good for sale, a tracking code printer, a tracking code scanner and a posting terminal communication interface for communicating with said market apparatus, said market apparatus comprising:

a communication interface for communicating with the posting terminal apparatus;

a post/de-post communications handler operably connected to communication interface, said communications handler receiving a data record of a good for sale from the posting terminal apparatus, said communication handler detecting a predetermined posting terminal apparatus identification code from the posting terminal apparatus and verifying from said identification code that the posting terminal apparatus is an authorized user of said market apparatus;

a storage device operably connected to said post/de-post handler, said storage device adapted to receive and store said data record of a good for sale, said data record containing an image of said good for sale and a textual description of said good for sale;

a presentation mapping module operably connected to said storage device and a wide area communication network, said presentation mapping module providing via said wide area communication network an interface to said market apparatus for a participant, said presentation mapping module providing said participant with access to said data record textual description and said image of said good for sale;

a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and payment from said participant, clear said purchase request and payment and if said payment clears then transfer the ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant; and

a notification means operably connected to said transaction processor said notification means notifying the posting terminal apparatus in response to said transaction processor

transferring ownership of said good for sale denoting with a finality of transaction said new ownership of said good.

16. The market apparatus of claim 15 further comprising:

a security handler operatively connected between said post/de-post communications handler and said storage device, said security handler providing means for authorizing, authenticating and securing said communications between said post/de-post communications handler and said storage device.

17. The market apparatus of claim 15 wherein said storage device is a relational database.

18. The market apparatus of claim 15 further comprising:

a world wide web server operably connected between said presentation mapping module and said wide area communications network, said world wide web server providing said participant with data entry fields in predetermined categories in which to request a search of said storage device for a data record of a good for sale.

19. The market apparatus of claim 15 further comprising;

an accounts database operably connected to said transaction processor, said accounts database containing an account number to track the funds payable to said user of said posting terminal apparatus, where said funds payable is generated from transfer of said good to said participant of said market apparatus.

20. The market apparatus of claim 15 wherein said post/de-post communications handler generates a unique tracking code and sends said unique tracking code to the posting terminal apparatus in response to said post/de-post communications handler receiving said data record of said good for sale from the posting terminal apparatus.

21. The market apparatus of claim 15 wherein a relationship exists between said market apparatus and a user of the

posting terminal apparatus, said relationship conferring on said act of receiving said data record of said good for sale a legally binding offer for sale of said good at a predetermined sale price of said good.

22. The market apparatus of claim 15 wherein said notification means is via electronic mail.

23. A system for presenting a data record of a good for sale to a market for goods, said market for goods having an interface to a wide area communication network for presenting and offering goods for sale to a purchaser, access to a transaction processor for processing a purchase request from said purchaser, a database for storing and tracking said data record of said good for sale, a communication interface for communicating with said system to accept said data record of said good and a payment means for transferring funds to a user of said system, said system comprising:

a digital camera for creating a digital image of a good for sale;

a user interface for receiving textual information from a user,

a printer for printing said digital image of said good for sale and said textual information from said user, a storage device;

a communication interface for communicating with the market; and

a computer locally connected to said digital camera, said user interface, said storage device and said communication interface, said computer adapted to receive said digital image of said good for sale from said digital Camera, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said

data record to the market for goods via said communication interface, receive a tracking code fo[r] sale good for sale and store said tracking code in said data record on said storage device.

24. The system of claim 23 wherein said textual description received from said user interface includes a sale price for said good for sale, wherein said computer adapted to transfer said data record further conveys a binding offer for sale of said good at said price from said computer to said market.

25. The system of claim 23 wherein said computer is further adapted to receive a bar code from a bar code scanner, said bar code identifying said tracking code of said good for sale on the market for goods, transmit said tracking code to said market for goods and retrieve said data record identified by said tracking code, wherein said computer adapted to transmit said tracking code further conveys a withdraw of said good from said market.

26. An electronic market for use with a posting terminal apparatus, said posting terminal apparatus having a digital imaging device for creating a digital image of a good for sale, a computer interface for creating a data record of said good for sale and a communication interface for communicating with said electronic market, said electronic market comprising:

a communication interface for communicating with the posting terminal apparatus;

a posting communications handler operably connected to said communication interface, said communications handler receiving inputs for a data record of a good for sale from the posting terminal apparatus, said communications handler detecting a predetermined posting terminal identification code from the posting terminal apparatus and verifying from said code that the posting terminal apparatus is an authorized user of said electronic market;

a storage device operably connected to said posting communications handler, said storage device adapted to receive and store and said data record of said good for sale, said data record indexing an image of said good for sale, a textual description of said good for sale and a code for said good for sale;

a presentation mapping module operably connected to said storage device and a wide area communication network, said presentation mapping module providing via said wide area communication network an interface to said electronic market for a participant, said presentation mapping module providing said participant with access to said data record textual description and said image of said good for sale;

a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and electronic payment information from said participant, transfer said purchase request to said posting terminal, and verify electronic payment information from said participant and if said electronic payment verifies then notify the owner of said good for sale by modifying a data record indexed to said data record for said good for sale to reflect said purchase request o. said good for sale by said participant; and

a notification module operably connected to said transaction processor, said notification module providing notification to the posting terminal apparatus in response to said transaction processor processing said purchase request and verifying said electronic payment information.

27. The electronic market of claim 26 wherein said market is further adapted to delay payment of said electronic payment for said good for sale from a first owner to a second owner for a predetermined interval.

28. The electronic market of claim 26 wherein said market is further adapted to delay payment of said electronic pay-

ment for said good of sale from a first owner to a second owner until a predetermined signal is received.

29. The electronic market of claim 27 wherein said notification module is an electronic mail system.

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